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JUN 25 1981 - 10 20 AM

1-176A071

INTERSTATE COMMERCE COMMISSION
Washington, D.C.

No. _____
Date JUN 25 1981
Fee \$ 50.00

Gentlemen:

ICC Washington, D. C.

Enclosed for recordation under the provisions of 49 USC 11303(a) are the original and eight counterparts of a Security Agreement-Trust Deed dated as of June 1, 1981.

A general description of the railroad equipment covered by the enclosed document is set forth in Schedule ~~1~~ attached to this letter and made a part hereof. *1 and 2*

The names and addresses of the parties are:

Debtor: The Connecticut Bank and Trust Company, as Trustee under I.C.G. Trust No. 81-3
One Constitution Plaza
Hartford, Connecticut 06115

Secured Party: Mercantile-Safe Deposit and Trust Company
P. O. Box 2258
Baltimore, Maryland 21203

The undersigned is the Debtor mentioned in the enclosed document and has knowledge of the matters set forth therein.

Please return the original and six copies of the Security Agreement-Trust Deed to Larry Elkins, Esq., Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603.

Also enclosed is a check in the amount of \$50.00 covering the required recording fee.

Very truly yours,

THE CONNECTICUT BANK AND TRUST COMPANY, as Trustee under I.C.G. Trust No. 81-3

By

[Signature]
Its ASSISTANT VICE PRESIDENT

DEBTOR AS AFORESAID

Enclosures
FEE OPERATION BR.
I.C.C.

RECEIVED
JUN 25 10 24 AM '81

C. D. Harwood
C. D. Harwood

DESCRIPTION OF EQUIPMENT PRIOR TO REBUILDING

<u>Number of Hulks</u>	<u>Description of Hulks</u>	<u>Hulk Purchase Price Per Unit</u>
11	SW-14 locomotives marked and numbered as follows: IC 463, IC 404, ICG 476, IC 442, ICG 443, IC 470, ICG 475, CIW 103, ICG 465, IC 462 and IC 457	\$39,000

DESCRIPTION OF EQUIPMENT FOLLOWING REBUILDING
AND OF PURCHASED EQUIPMENT

- | | |
|------|---|
| 11 | Rebuilt SW-14 Diesel Electric Locomotives Marked and Numbered ICG 1478 through ICG 1488, both inclusive |
|
 | |
| 240 | 100-Ton Open Top Hopper Cars Marked and Numbered ICG 387500 through 387739, both inclusive |

13160

RECORDATION NO. Filed 1425

JUN 25 1981 - 10 20 AM

INTERSTATE COMMERCE COMMISSION.

Execution Copy
Matter No. 34446-5.

SECURITY AGREEMENT-TRUST DEED

Dated as of June 1, 1981

From

THE CONNECTICUT BANK AND TRUST COMPANY,
as Trustee under I.C.G. Trust No. 81-3

DEBTOR

To

MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY

SECURED PARTY

(I.C.G. Trust No. 81-3)
(11 Rebuilt Locomotives and 240 Open Top Hopper Cars)

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ATTACHMENTS TO SECURITY AGREEMENT-TRUST DEED:

Schedule 1 - Description of Equipment Prior to Rebuilding
Schedule 2 - Description of Equipment Following Rebuilding
 and of Purchased Equipment
Schedule 3 - Principal Amortization Schedule
Exhibit A - Form of Secured Note

SECURITY AGREEMENT-TRUST DEED

THIS SECURITY AGREEMENT-TRUST DEED dated as of June 1, 1981 (the "Security Agreement") is from THE CONNECTICUT BANK AND TRUST COMPANY, not in its individual capacity but solely in its capacity as Trustee (the "Debtor") under a Trust Agreement dated as of June 1, 1981 (the "Trust Agreement") with Valley Bank Leasing, Inc. (the "Trustor"), Debtor's post office address being One Constitution Plaza, Hartford, Connecticut 06115, Attention: Corporate Trust Department, to MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY (the "Secured Party") whose post office address is P.O. Box 2258, Baltimore, Maryland 21203, Attention: Corporate Trust Department.

R E C I T A L S:

A. The Debtor and the Secured Party have entered into a Participation Agreement dated as of June 1, 1981 (the "Participation Agreement") with Illinois Central Gulf Railroad Company, a Delaware corporation (the "Lessee"), Waterloo Railroad Company ("Waterloo") the Trustor and the institutional investor referred to in Schedule 2 thereto (the "Note Purchaser") providing for the commitment of the Note Purchaser to purchase on a Deposit Date (as defined in the Participation Agreement) not later than July 1, 1981, the Secured Notes (the "Notes") of the Debtor not exceeding an aggregate principal amount of \$11,690,400. The Notes are to be dated the date of issue, to bear interest from such date, to but not including January 1, 1984 at the Prime Rate and thereafter prior to maturity at 120% of the Prime Rate, in each case from time to time in effect, to be expressed to mature in nine (9) installments of interest only payable on October 1, 1981, and on the first day of each January, April, July and October thereafter to and including October 1, 1983, followed by 41 consecutive quarterly installments, including both principal and interest, the principal portion thereof to be payable in accordance with the amortization schedule set forth in Schedule 2 hereto with the first such installment to be paid on January 1, 1984, and the balance of such installments at three-month intervals thereafter; and to be otherwise substantially in the form attached hereto as Exhibit A. As used herein and in the Notes, the term "Prime Rate" shall mean that rate of interest which from time to time is announced by First Interstate Bank of California as its prime rate.

B. The Notes and all principal thereof and interest (and premium, if any) thereon and all additional amounts and other sums at any time due and owing from or required to be paid by the Debtor under the terms of the Notes, this Security Agreement or the Participation Agreement are hereinafter sometimes referred to as "indebtedness hereby secured".

C. All of the requirements of law relating to the transaction contemplated hereby have been fully complied with and all other acts and things necessary to make this Security Agreement a valid, binding and legal instrument for the security of the Notes have been done and performed.

SECTION 1. GRANT OF SECURITY.

The Debtor in consideration of the premises and other good and valuable consideration, receipt whereof is hereby acknowledged, and in order to secure the payment of the principal of and interest on the Notes according to their tenor and effect, and to secure the payment of all other indebtedness hereby secured and the performance and observance of all of the Debtor's covenants and conditions in the Notes and in this Security Agreement and in the Participation Agreement contained, does hereby convey, warrant, mortgage, assign, pledge and grant the Secured Party, its successors in trust and assigns for the ratable use and benefit of the holders of the Notes, a security interest in all and singular of the Debtor's right, title and interest in and to the Escrow Fund (as defined in the Participation Agreement), and the properties, rights, interests and privileges described in Sections 1.1, 1.2 and 1.3 hereof, subject to those limitations set forth in Section 1.4 hereof; excluding, however, those Excepted Rights in Collateral as defined in Section 1.6 hereof (all of which properties other than the Excepted Rights in the Collateral, being hereby mortgaged, assigned and pledged or intended so to be are hereinafter collectively referred to as the "Collateral").

1.1. Equipment Collateral. Collateral includes (i) the used railroad locomotives described in Schedule 1 attached hereto and made a part hereof, which used locomotives are to be rebuilt pursuant to a Reconstruction Agreement dated as of June 1, 1981 (the "Reconstruction Agreement") between Waterloo as rebuilder and the Debtor as provided therein and to be identified thereafter as described in Schedule 2 attached hereto and made a part hereof and (ii) the railroad equipment to be sold pursuant to a Purchase Agreement dated as of June 1, 1981 between Waterloo as seller and the Debtor as provided therein and to be identified thereafter as described in Schedule 2 attached hereto and made a part hereof (said rebuilt used locomotives as reconstructed under the Reconstruction Agreement are hereinafter referred to as "Rebuilt Equipment" and "Rebuilt Item" or "Item of Rebuilt Equipment" shall mean individually the various items thereof and said railroad rolling stock newly constructed under the Purchase Agreement are hereinafter referred to as "New Equipment" and "New Item" or "Item of New Equipment" shall mean individually the various items thereof; collectively as described in Schedules 1 and 2 the "Equipment" and individually an "Item" or "Item of Equipment"), and which constitute the Equipment leased and delivered under that certain Equipment Lease dated as of June 1, 1981 (the "Lease") between the Debtor,

as lessor, and the Lessee, as lessee; together with all accessories, equipment, parts and appurtenances appertaining or attached to any of the Equipment hereinabove described, whether now owned or hereafter acquired, except such thereof as remain the property of the Lessee under the Lease, and all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of said Equipment, except such thereof as remain the property of the Lessee under the Lease, together with all the rents, issues, income, profits and avails therefrom.

1.2. Rental Collateral. Collateral also includes all right, title, interest, claims and demands of the Debtor as lessor in, to and under the Lease, including all extensions of the term of the Lease, together with all rights, powers, privileges, options and other benefits of the Debtor as lessor under the Lease, including, without limitation:

(1) the immediate and continuing right to receive and collect all rental, casualty value payments, insurance proceeds, condemnation awards and other payments, tenders and security now or hereafter payable or receivable by the Lessor under the Lease pursuant thereto, except those sums reserved as Excepted Rights in Collateral under Section 1.6 hereof;

(2) the right to make all waivers and agreements and to enter into any amendments relating to the Lease or any provision thereof, except with regard to the right of the Debtor or the Trustor to receive those sums reserved as Excepted Rights in Collateral under Section 1.6 hereof; provided that so long as no Event of Default hereunder shall have occurred and be continuing, or an Event of Default hereunder shall have occurred and be continuing due solely to an Event of Default having occurred under Sections 14.1(e) and 14.1(f) of the Lease and the Lessee shall then have otherwise performed all of its obligations under the Lease, the Secured Party agrees that it will not enter into any such waiver, agreement or amendment without the written concurrence of the Debtor; and

(3) subject to those rights granted the Debtor under Section 5.3 hereof, the right to take such action upon the occurrence of an Event of Default under the Lease or an event which, with the lapse of time or the giving of notice, or both, would constitute an Event of Default under the Lease, including the commencement, conduct and consummation of legal, administrative or other proceedings; as shall be permitted by the Lease or by law, and to do any and all other things whatsoever which the Debtor or any lessor is or may be entitled to do under the Lease;

it being the intent and purpose hereof that subject always to Excepted Rights in Collateral (as defined in Section 1.6 hereof), the assignment and transfer to the Secured Party of said rights, powers, privileges, options and other benefits shall be effective

and operative immediately and shall continue in full force and effect, and the Secured Party shall have the right to collect and receive all rental and casualty value payments and other sums for application in accordance with the provisions of Section 4 hereof at all times during the period from and after the date of this Security Agreement until the indebtedness hereby secured has been fully paid and discharged.

1.3. Reconstruction Agreement Collateral. Collateral also includes all right, title and interest of the Debtor to the Reconstruction Agreement including, without limitation:

(1) the immediate and continuing right to receive and collect all payments due to the Debtor thereunder and now or hereafter receivable by the Debtor under the Reconstruction Agreement and pursuant thereto;

(2) the right to approve with the Debtor's concurrence all waivers, agreements and amendments relating to the Reconstruction Agreement or any provision thereof; and

(3) the right to take such action upon the failure of Waterloo to reconstruct the Equipment on or before October 15, 1981 as is provided in Section 11 of the Reconstruction Agreement.

The assignment and transfer to the Secured Party of said rights, powers and other benefits shall be effective and operative immediately and shall continue in full force and effect, at all times during the period from and after the date of this Security Agreement until the indebtedness hereby secured has been fully paid and discharged.

1.4. Limitations to Security Interest. The security interest granted by this Section 1 is subject to (a) the right, title and interest of the Lessee in and to the Equipment under the Lease so long as no Event of Default under the Lease, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default under the Lease shall have occurred and be continuing, (b) the lien of current taxes or assessments not in default (but only if such taxes are entitled to priority as a matter of law), or, if delinquent, the validity of which is being contested in good faith, (c) liens of vendors, mechanics, materialmen and laborers for work or service performed, or materials furnished which are not yet due and payable, including, without limitation, the rights of Waterloo as seller, arising under the Hulk Purchase Agreement (as defined in the Participation Agreement) and of Waterloo as rebuilder, arising under the Reconstruction Agreement, (d) liens and charges being contested pursuant to Section 9 of the Lease, and (e) rights reserved to or vested in any government, municipality or public authority to control or regulate any Item of Equipment or the use of such Item in any manner which has no material adverse effect on the use of

such Item for the Debtor's purposes (collectively "Permitted Encumbrances").

1.5. Duration of Security Interest. The Secured Party, its successors in trust and assigns shall have and hold the Collateral forever; provided, always, however, that such security interest is granted upon the express condition that if the Debtor shall pay or cause to be paid all the indebtedness hereby secured then these presents and the estate hereby granted and conveyed shall cease and this Security Agreement shall become null and void, and in such event the Secured Party shall (upon the request of the Debtor and at no cost to the Secured Party) execute and deliver to the Debtor such instrument or instruments as may be necessary or appropriate in order to make clear upon the public records the title of the Debtor in and to the Collateral; otherwise it shall remain in full force and effect.

1.6. Excepted Rights in Collateral. There are expressly excepted and reserved from the security interest and operation of this Security Agreement the following described properties, rights, interests and privileges (hereinafter sometimes referred to as the "Excepted Rights in Collateral") and nothing herein or in any other agreement contained shall constitute an assignment of said Excepted Rights in Collateral to the Secured Party:

(a) all payments of any indemnity under Sections 6, 10.2 and 20 of the Lease and Section 8 of the Reconstruction Agreement or repayments to the Debtor or interest on such payments by reason of payments by the Debtor under Section 21.2 of the Lease which by the terms of any of such sections of the Lease are payable to the Debtor or the Trustor for its own account and all rental increases pursuant to the operation of Section 2.3 of the Lease;

(b) all rights of the Debtor and the Trustor, respectively, under the Lease to demand, collect, sue for or otherwise obtain all amounts from the Lessee due the Debtor or the Trustor on account of any such indemnities or payments or rental increases pursuant to the operation of Section 2.3 of the Lease, provided that the rights excepted and reserved by this paragraph (b) shall not be deemed to include the exercise of any remedies provided for in Section 14 of the Lease except those contained in Section 14.2(a) thereof; and

(c) any insurance proceeds payable under general public liability policies maintained by the Lessee pursuant to Section 11.1 of the Lease or maintained by Waterloo under Section 9 of the Reconstruction Agreement which by the terms of such policies or the terms of such agreements are payable directly to the Debtor or the Trustor for its own account.

SECTION 2. COVENANTS AND WARRANTIES OF THE DEBTOR.

The Debtor covenants, warrants and agrees as follows:

2.1. Debtor's Duties. The Debtor covenants and agrees well and truly to perform, abide by and be governed and restricted by each and all of the terms, provisions, restrictions, covenants and agreements set forth in the Participation Agreement, and in each and every supplement thereto or amendment thereof which may at any time or from time to time be executed and delivered by the parties thereto or their successors and assigns, to the same extent as though each and all of said terms, provisions, restrictions, covenants and agreements were fully set out herein and as though any amendment or supplement to the Participation Agreement were fully set out in an amendment or supplement to this Security Agreement. The Debtor undertakes to perform only such duties as are expressly and specifically set forth herein and in the other Operative Agreements (as defined in the Participation Agreement) and no implied obligations or covenants shall be read into this Security Agreement or any other Operative Agreements against the Debtor.

2.2. Warranty of Title. The Debtor has the right, power and authority under the Trust Agreement to grant a security interest in the Collateral to the Secured Party for the uses and purposes herein set forth; and the Debtor will warrant and defend the title to the Collateral against all claims and demands of persons claiming by, through or under the Debtor, excepting only this Security Agreement and Permitted Encumbrances. The Debtor also agrees that it will, in its individual capacity and at its own cost and expense, without regard to the provisions of Section 7 hereof, promptly take such action as may be necessary to duly discharge any liens and encumbrances on the Collateral which result from claims against the Debtor in its individual capacity and not related to the ownership of the Equipment or the administration of the Trust Estate (as defined in the Trust Agreement). Without limiting the foregoing, there is no financing statement or other filed or recorded instrument in which the Debtor is named and which the Debtor has signed, as debtor or mortgagor, now on file in any public office covering any of the Collateral excepting the financing statements or other instruments filed or to be filed in respect of and for the security interest provided for herein.

2.3. Further Assurances. The Debtor will, upon the request of and at no expense to the Secured Party, do, execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired. Without limiting the foregoing but in furtherance of the security interest herein granted in the rents and other sums due and to become due under the Lease, the Debtor covenants and agrees that it will,

pursuant to Section 16 of the Lease, notify the Lessee of the assignment hereunder and direct the Lessee to make all payments of such rents and other sums due and to become due under the Lease other than Excepted Rights in Collateral directly to the Secured Party or as the Secured Party may direct in writing.

2.4. After-Acquired Property. Any and all property described or referred to in the granting clauses hereof which is hereafter acquired shall ipso facto, and without any further conveyance, assignment or act on the part of the Debtor or the Secured Party, become and be subject to the security interest herein granted as fully and completely as though specifically described herein, but nothing in this Section 2.4 contained shall be deemed to modify or change the obligation of the Debtor under Section 2.3 hereof.

2.5. Recordation and Filing. The Debtor will cooperate fully with the Lessee and/or the Secured Party in any effort to cause this Security Agreement and all supplements hereto, the Lease and all supplements thereto, and all financing and continuation statements and similar notices required by applicable law, at all times to be kept, recorded and filed at no expense to the Secured Party in such manner and in such place as may be requested in writing by the Secured Party in order to fully preserve and protect the rights of the Secured Party hereunder.

2.6. Modifications of the Lease. The Debtor will not:

(a) declare a default or exercise the remedies of the Lessor under, or terminate, modify or accept a surrender of, or offer or agree to any termination, modification or surrender of, the Lease (except as otherwise expressly provided herein) or, except as permitted under the Lease, by affirmative act consent to the creation or existence of any security interest or other lien to secure the payment of indebtedness upon the leasehold estate created by the Lease or any part thereof;

(b) except in respect of Excepted Rights in Collateral, receive or collect any rental payment under the Lease prior to the date for payment thereof provided for by the Lease or assign, transfer or hypothecate (other than to the Secured Party hereunder) any rent payment which is then due or to accrue in the future under the Lease in respect of the Equipment; or

(c) except as otherwise provided in the Operative Agreements (as defined in the Participation Agreement) and except in respect of Excepted Rights in Collateral, sell, mortgage, transfer, assign or hypothecate (other than to the Secured Party hereunder) its interest in the Equipment or any part thereof or in any amount to be received by it from the use or disposition of the Equipment.

2.7. Power of Attorney in Respect of the Lease. The Debtor does hereby irrevocably constitute and appoint the Secured Party its true and lawful attorney with full power of substitution, for it and in its name, place and stead, to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all rents, income and other sums which are assigned under Sections 1.1, 1.2 and 1.3 hereof (with full power if an Event of Default shall have occurred and be continuing hereunder to settle, adjust or compromise any claim thereunder as fully as the Debtor could itself do), and to endorse the name of the Debtor on all commercial paper given in payment or in part payment thereof, and in its discretion to file any claim or take any other action or proceedings, either in its own name or in the name of the Debtor or otherwise, which the Secured Party may deem necessary or appropriate to protect and preserve the right, title and interest of the Secured Party in and to such rents and other sums and the security intended to be afforded hereby; provided that so long as no Event of Default hereunder shall have occurred and be continuing, or an Event of Default hereunder shall have occurred and be continuing due solely to an Event of Default having occurred under Sections 14.1(e) and 14.1(f) of the Lease and the Lessee shall then have otherwise performed all of its obligations under the Lease, the Secured Party agrees that it will not enter into any waiver, agreement or amendment of any of the Operative Agreements (as defined in the Participation Agreement) in the name of the Debtor under this power of attorney without the written concurrence of the Debtor.

2.8. Notice of Default. The Debtor further covenants and agrees that it will give the Secured Party and the Note Purchaser prompt written notice of any event or condition constituting an Event of Default under the Lease if an officer in the Corporate Trust Department of the Debtor has actual knowledge of such event or condition.

SECTION 3. POSSESSION, USE AND RELEASE OF PROPERTY.

3.1. Possession of Collateral. While the Debtor is not in default hereunder, it shall be permitted to remain in full possession, enjoyment and control of the Equipment and the Hulks (as defined in the Participation Agreement) and to manage, operate and use the same and each part thereof with the rights and franchises appertaining thereto, provided, always, that the possession, enjoyment, control and use of the Equipment and the Hulks shall at all times be subject to the observance and performance of the terms of this Security Agreement. It is expressly understood that the use and possession of the Equipment by the Lessee under and subject to the Lease and the reconstruction of the Hulks by Waterloo under and subject to the Reconstruction Agreement shall not constitute a violation of this Section 3.1.

3.2. Release of Property. So long as no default referred to in Section 14 of the Lease has occurred and is continuing to the knowledge of the Secured Party, the Secured Party shall execute

a release in respect of any Item of Equipment designated by the Lessee for settlement of casualty value pursuant to Section 11 of the Lease upon receipt from the Lessee of written notice designating the Item of Equipment in respect of which the Lease will terminate and the receipt from the Lessee of all sums payable for such Item of Equipment in compliance with Section 11 of the Lease. So long as no default referred to in Section 14 of the Lease has occurred and is continuing to the knowledge of the Secured Party, the Secured Party shall execute a release of its security interest in respect of any Non-completed Hulk (as defined in Section 11 of the Reconstruction Agreement) which is to be sold pursuant to the terms of Section 11 of the Reconstruction Agreement upon receipt from the Debtor of written notice designating such Non-completed Hulk to be sold pursuant to said Section 11. The Secured Party agrees to execute such instruments as the Debtor shall reasonably request to evidence such release and consents to all appropriate filings to confirm such release of public record. Said release will be delivered to the Debtor concurrently with the delivery to the Secured Party of the proceeds of sale of such Non-completed Hulk. Sums held by the Security Trustee as a portion of the Escrow Fund may be invested, disbursed or released in the manner and to the extent provided in Section 2.2 of the Participation Agreement.

3.3. Protection of Purchaser. No purchaser in good faith of property purporting to be released hereunder shall be bound to ascertain the authority of the Secured Party to execute the release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser, in good faith, of any item or unit of the Collateral be under obligation to ascertain or inquire into the conditions upon which any such sale is hereby authorized.

SECTION 4. APPLICATION OF ASSIGNED RENTALS AND CERTAIN OTHER MONEYS RECEIVED BY THE SECURED PARTY.

4.1. Application of Rents and Other Payments. As more fully set forth in Section 1.2 hereof, the Debtor has hereby granted to the Secured Party a security interest in certain rents, issues, profits, income and other sums due and to become due under the Lease in respect of the Equipment as security for the Notes. So long as no Event of Default as defined in Section 5 hereof has occurred and is continuing:

(a) The amounts from time to time received by the Secured Party which constitute payment by the Lessee under the Lease of the installments of rental under the Lease shall be applied first, to the payment of the installments of principal and interest (and in each case first to interest and then to principal) on the Notes which have matured or will mature on or before the due date of the installments of rental which are received by the Secured Party, and then the balance, if any, of such amounts shall be paid to or

upon the order of the Debtor not later than the first business day following the receipt thereof;

(b) The amounts from time to time received by the Secured Party which constitute settlement by the Lessee of the "Casualty Value" for any Item of Equipment pursuant to Section 11 of the Lease or payments received by the Secured Party pursuant to Section 11 of the Reconstruction Agreement shall be applied by the Secured Party as follows:

(i) First, to the payment of an amount, if any, equal to the accrued and unpaid interest on that portion of the Notes to be prepaid pursuant to the following subparagraph;

(ii) Second, an amount equal to the Loan Value of the Item of Equipment or Non-completed Hulk (as defined in the Reconstruction Agreement) for which settlement is then being made shall be applied to the prepayment of the Notes so that each of the remaining installments of each Note shall be reduced in the proportion that the principal amount of the prepayment bears to the unpaid principal amount of the Notes immediately prior to the prepayment; and

(iii) Third, the balance, if any, of such amounts held by the Secured Party after making the applications provided for by the preceding subparagraphs (i) and (ii) shall be released to or upon the order of the Debtor on the date of payment of the amounts provided in the preceding clauses (i) and (ii).

For purposes of this Section 4.1(b), the "Loan Value" in respect of any Item of Equipment or any Non-completed Hulk shall be (i) in the case of any Item of Equipment, an amount equal to the product of (A) a fraction, the numerator of which is an amount equal to the Total Cost (as defined in the Participation Agreement) of such Item of Equipment for which settlement is then being made and the denominator of which is the sum of the Aggregate Total Cost (as defined in the Participation Agreement) of all Items of Equipment then subject to the Lease (including the Total Cost of such Item of Equipment for which settlement is then being made) plus the aggregate Hulk Purchase Price of all then Non-completed Hulks, times (B) the unpaid principal amount of the Notes immediately prior to the prepayment provided for in this Section 4.1(b) (after giving effect to all prior payments of installments of principal made or to be made in connection with the prepayment provided for in this Section 4.1(b)), or (ii) in the case of any Non-completed Hulk, an amount equal to the product of (A) a fraction, the numerator of which is an amount equal to the Hulk Purchase Price (as defined in the Participation Agreement) of such Non-completed Hulk for which settlement is then being made and the denominator of which is the aggregate Hulk Purchase Price for all then

Non-completed Hulks (including the Hulk Purchase Price of such Non-completed Hulk for which settlement is then being made) plus the Aggregate Total Cost of all Items of Equipment then subject to the Lease, times (B) the unpaid principal amount of the Notes immediately prior to the prepayment provided for in this Section 4.1(b) (after giving effect to all prior payments of installments of principal made or to be made in connection with the prepayment provided for in this Section 4.1(b));

(c) The amounts received by the Secured Party from time to time which constitute proceeds of casualty insurance maintained by the Lessee or Waterloo, as rebuilder, in respect of the Equipment or the Hulks, shall be held by the Secured Party as a part of the Collateral and shall be applied by the Secured Party from time to time to any one or more of the following purposes:

(i) So long as no Event of Default under the Lease has occurred and is continuing to the knowledge of the Secured Party, the proceeds of such insurance shall, if the Item of Equipment is to be repaired, be released to the Debtor to reimburse or pay the Lessee for expenditures made for such repair upon receipt by the Secured Party of a certificate of an authorized officer of the Lessee to the effect that any damage to such Item in respect of which such proceeds were paid has been fully repaired; and

(ii) If the insurance proceeds shall not have been released to the Debtor pursuant to the preceding paragraph (i) within 180 days from the receipt thereof by the Secured Party, or if within such period the Lessee shall have notified the Secured Party in writing that the Lease is to be terminated in respect of such Item in accordance with the provisions of Section 11.2 of the Lease then so long as no Event of Default hereunder has occurred and is continuing to the knowledge of the Secured Party, the insurance proceeds shall be applied by the Secured Party as follows:

(A) First, to the prepayment of the Notes, all in the manner and to the extent provided for by Section 4.1(b) hereof; and

(B) Second, the balance, if any, of such insurance proceeds held by the Secured Party after making the applications provided for by the preceding subparagraph (A) shall be released to or upon the order of the Debtor on the date of such prepayment of the Notes.

4.2. Multiple Notes. If more than one Note is outstanding at the time any such application is made, such application shall

be made on all outstanding Notes ratably in accordance with the aggregate principal amount remaining unpaid thereon.

4.3. Default. If an Event of Default referred to in Section 5 hereof has occurred and is continuing, all amounts received by the Secured Party pursuant to Section 1 hereof shall be applied in the manner provided for in Section 5 in respect of proceeds and avails of the Collateral.

SECTION 5. DEFAULTS AND OTHER PROVISIONS.

5.1. Events of Default. The term "Event of Default" for all purposes of this Security Agreement shall mean one or more of the following:

(a) Default in payment of an installment of the principal of, or interest on, any Note when and as the same shall become due and payable, whether at the due date thereof or at the date fixed for prepayment or by acceleration or otherwise, and such default shall continue unremedied for five business days;

(b) An Event of Default (as defined in the Lease) shall have occurred and be continuing under the Lease;

(c) Default on the part of the Debtor in the due observance or performance of any covenant or agreement to be observed or performed by the Debtor under this Security Agreement or the Participation Agreement, and such default shall continue unremedied for 30 days after written notice from the Secured Party to the Debtor specifying the default and demanding the same to be remedied;

(d) Any representation or warranty on the part of the Debtor made herein or in the Participation Agreement or in any report, certificate, financial or other statement furnished by the Debtor in connection with this Security Agreement, the Lease or the Participation Agreement, or the transactions contemplated therein, shall prove to have been false or misleading in any material respect when made; or

(e) Any claim, lien or charge (other than Permitted Encumbrances and liens, charges and encumbrances which the Lessee is obligated to discharge under Section 9 of the Lease) shall be asserted against or levied or imposed upon the Equipment which is prior to or on a parity with the security interest granted hereunder, and such claim, lien or charge shall not be discharged or removed (or bonded in a manner reasonably satisfactory to the Secured Party) within thirty calendar days after written notice from the Secured Party or the holder of any Note to the Debtor and the Lessee demanding the discharge or removal thereof.

5.2. Secured Party's Rights. The Debtor agrees that when any Event of Default as defined in Section 5.1 has occurred and is continuing, but subject always to Sections 5.3 and 7 hereof, the Secured Party shall have the rights, options, duties and remedies of a secured party, and the Debtor shall have the rights and duties of a debtor, under the Uniform Commercial Code of Maryland, and without limiting the foregoing, the Secured Party may exercise any one or more or all, and in any order, of the remedies hereinafter set forth, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute.

(a) The Secured Party may, and upon the direction of not less than 25% of the outstanding principal amount of the Notes, will, by notice in writing to the Debtor declare the entire unpaid balance of the Notes to be immediately due and payable, and thereupon all such unpaid balance, together with all accrued interest thereon, shall be and become immediately due and payable;

(b) Subject always to the rights of the Lessee under the Lease, provided the same is not then in default, the Secured Party personally or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of the premises of the Debtor, with or without notice, demand, process of law or legal procedure, if this can be done without breach of the peace, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold;

(c) Subject always to the rights of the Lessee under the Lease, provided the same is not in default, the Secured Party may, if at the time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given notice of such sale by registered mail to the Debtor and the Lessee once at least ten days prior to the date of such sale, and any other notice which may be required by law, sell and dispose of the Collateral, or any part thereof, at public auction to the highest bidder, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Secured Party may determine, and at any place (whether or not it be the

location of the Collateral or any part thereof) designated in the notice above referred to; provided, however, that any such sale shall be held in a commercially reasonable manner. Any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice, and the Secured Party or the holder or holders of the Notes, or of any interest therein, or the Debtor may bid and become the purchaser at any such sale;

(d) Subject always to the rights of the Lessee under the Lease, provided the same is not then in default, the Secured Party may proceed to protect and enforce this Security Agreement and the Notes by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for the Collateral or any part thereof, or subject to the provisions of Section 7 hereof, for the recovery of judgment for the indebtedness hereby secured or for the enforcement of any other proper, legal or equitable remedy available under applicable law; and

(e) Subject always to the rights of the Lessee under the Lease, provided the same is not then in default, the Secured Party may proceed to exercise all rights, privileges and remedies of the Debtor under the Lease and may exercise all such rights and remedies either in the name of the Secured Party or in the name of the Debtor for the use and benefit of the Secured Party.

5.3. Certain Rights of the Debtor on the Occurrence of an Event of Default Under the Lease. If an Event of Default under the Lease (other than an Event of Default resulting from an event referred to in Section 14.1(e) or (f) thereof) or under Section 5.1(a) hereof shall have occurred and be continuing, the Secured Party shall give the Debtor not less than ten days' prior written notice of the date (the "Enforcement Date") on which the Secured Party will exercise any remedy or remedies pursuant to Section 5.2 hereof. If an Event of Default under the Lease (other than an Event of Default resulting from an event referred to in Section 14.1(e) or (f) thereof), and any resulting default under Section 5.1 hereof, shall have occurred and be continuing, the Debtor shall have the following rights hereunder:

(a) Right to Cure. In the event of the occurrence of an Event of Default pursuant to Section 14.1(a) or 14.1(c) of the Lease (or both) resulting from the failure of the Lessee to pay any sums due thereunder, or to observe or perform any other of its covenants, conditions and agreements contained in any of the Operative

Agreements, the Debtor may, prior to the Enforcement Date, in the case of an Event of Default pursuant to said Section 14.1(a) (and a resulting default hereunder), pay to the Secured Party an amount equal to any principal and interest (including interest, if any, on overdue payments of principal and interest) then due and payable on the Notes, and in the case of an Event of Default pursuant to said Section 14.1(c) pay any sums necessary and effective to accomplish the observance or performance of the covenant, condition or agreement which the Lessee has failed to observe or perform, such sums to be paid to the party entitled to receive the same (including interest, if any, thereon), or otherwise provide for the performance of such undertaking of the Lessee and any such payment or performance by the Debtor under this Section 5.3(a) shall be deemed to cure any such Event of Default under the Lease and any Event of Default hereunder resulting therefrom (including, without limitation, an Event of Default under Section 5.1(a) hereof) which would otherwise have arisen on account of such non-payment, non-observance or non-performance by the Lessee under the Lease; provided, however, that the Debtor may not exercise such right in respect of more than four consecutive Fixed Rental (as defined in the Lease) payment defaults or in any event more than a total of eight times throughout the term of the Lease in respect of Fixed Rental payment defaults.

The Debtor shall not, by exercising the right to cure any such Event of Default, obtain any lien, charge or encumbrance of any kind on any of the Collateral for or on account of costs or expenses incurred in connection with the exercise of such right nor shall any claims of the Debtor against the Lessee or any other party for the repayment of such costs or expenses impair the prior right and security interest of the Secured Party in and to the Collateral. Upon such payment by the Debtor of the amount of principal and interest then due and payable on the Notes, the Debtor shall be subrogated to the rights of the Secured Party in respect of any Fixed Rental which was overdue at the time of such payment and interest payable by the Lessee on account of its being overdue, and therefore, if no other Event of Default shall have occurred and be continuing and if all principal and interest payments due on the Notes have been paid at the time of receipt by the Secured Party of such Fixed Rental and such interest, the Debtor shall be entitled to receive such Fixed Rental and such interest upon receipt thereof by the Secured Party; provided that (1) in the event the principal and interest on the Notes shall have become due and payable pursuant to Section 5.2(a) hereof, such subrogation shall, until principal of and interest on all Notes shall have been paid in full, be subordinate to the rights of the Secured Party in respect of such payment of Fixed Rental and such interest prior to receipt by the

Debtor of any amount pursuant to such subrogation, and (ii) the Debtor shall not be entitled to seek to recover any such payment (or any payment in lieu thereof) except pursuant to the foregoing right of subrogation.

The exercise by the Debtor of its rights set forth herein in accordance with the provisions hereof shall cure any Event of Default cured by the exercise of such rights nunc pro tunc.

(b) Option to Prepay Notes. In addition to the rights of the Debtor granted in the Notes and whether or not the Debtor shall then have the right to cure an Event of Default under the Lease pursuant to Section 5.3(a) above, the Debtor may, if an Event of Default has occurred and is continuing which is the result of an Event of Default under the Lease, at its option prepay the Notes, without premium or penalty, by payment of the entire unpaid principal amount thereof, together with accrued interest thereon to the date of prepayment.

5.4. Acceleration Clause. In case of any sale of the Collateral, or of any part thereof, pursuant to any judgment or decree of any court or otherwise in connection with the enforcement of any of the terms of this Security Agreement, the principal of the Notes, if not previously due, and the interest accrued thereon, shall at once become and be immediately due and payable; also in the case of any such sale, the purchaser or purchasers, for the purpose of making settlement for or payment of the purchase price, shall be entitled to turn in and use the Notes and any claims for interest matured and unpaid thereon, in order that there may be credited as paid on the purchase price the sum apportionable and applicable to the Notes including principal and interest thereof out of the net proceeds of such sale after allowing for the proportion of the total purchase price required to be paid in cash.

5.5. Waiver by Debtor. To the extent permitted by law, the Debtor covenants that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take, nor insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisal of the Collateral or any part thereof prior to any sale or sales thereof to be made pursuant to any provision herein contained, or pursuant to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and, to the full extent legally permitted, hereby expressly waives for itself and on behalf of each and every person, except decree or judgment creditors of the Debtor acquiring any interest in or title to the Collateral or any part thereof subsequent to the date of this Security

Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to the Secured Party, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted.

5.6. Effect of Sale. Any sale, whether under any power of sale hereby given or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Debtor in and to the property sold, and shall be a perpetual bar, both at law and in equity, against the Debtor, its successors and assigns, and against any and all persons claiming the property sold or any part thereof under, by or through the Debtor, its successors or assigns (subject, however, to the then existing rights, if any, of the Lessee under the Lease); provided however, that nothing in this Agreement shall operate to deprive the Debtor of title to the Collateral prior to any sale or sales thereof made pursuant to any provision herein contained, or pursuant to the decree, judgment or order of any court of competent jurisdiction.

5.7. Application of Proceeds. The proceeds and/or avails of the Collateral, or any part thereof, and the proceeds and the avails of any remedy hereunder shall be as soon as practicable after the receipt thereof paid to and applied as follows:

(a) First, to the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including legal expenses and attorneys' fees, incurred or made hereunder by the Secured Party, or the holder or holders of the Notes and of all taxes, assessments or liens superior to the lien of these presents, except any taxes, assessments or other superior lien subject to which said sale may have been made;

(b) Second, (i) in the case of any such proceeds and/or avails which arise as the result of the sale of any Item of Rebuilt Equipment which has been settled for by the application of sums advanced by the Note Purchaser both on a Hulk Closing Date and an Equipment Closing Date under the Participation Agreement, the full balance of such proceeds and/or avails, and (ii) in the case of any such proceeds and/or avails which arise as the result of the sale of any Item of Rebuilt Equipment which has been settled for by application of sums advanced by the Note Purchaser only on a Hulk Closing Date for the Hulk Purchase Price thereof and for which settlement of the Reconstruction Cost thereof was completed solely by application of additional sums advanced by the Trustor, an amount or portion of such proceeds and/or avails equal to but not exceeding the Hulk Purchase Price paid by the Debtor for the Hulk which was rebuilt to produce

such Item of Equipment, and (iii) in all other cases, including the application of such proceeds and/or avails which arise as the result of the sale of any Item of New Equipment, to the payment to the holder or holders of the Notes of the amount then owing or unpaid on the Notes for principal, interest and premium, if any; and in case such proceeds shall be insufficient to pay in full the whole amount so due, owing or unpaid upon the Notes, then ratably according to the aggregate of such principal and the accrued and unpaid interest and premium, if any, with application on each Note to be made, first, to the unpaid interest thereon, second, to unpaid premium, if any, thereon, and third, to unpaid principal thereof; such application to be made upon presentation of the several Notes, and the notation thereon of the payment, if partially paid, or the surrender and cancellation thereof, if fully paid; and

(c) Third, to the payment of the surplus (including, without limitation, proceeds and/or avails for Items of Rebuilt Equipment referred to in paragraph (b)(ii) above in excess of the Hulk Purchase Price thereof), if any, to the Debtor, its successors and assigns, or to whomsoever may be lawfully entitled to receive the same.

5.8. Discontinuance of Remedies. In case the Secured Party shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, then and in every such case the Debtor, the Secured Party and the holder or holders of the Notes shall be restored to their former positions and rights hereunder with respect to the property subject to the security interest created under this Security Agreement.

5.9. Cumulative Remedies. No delay or omission of the Secured Party or of the holder of any Note to exercise any right or power arising from any default or Event of Default under this Agreement shall exhaust or impair any such right or power or prevent its exercise during the continuance thereof. No waiver by the Secured Party, or the holder of any Note, of any such default or Event of Default, whether such waiver be full or partial, shall extend to or be taken to affect any subsequent default, or to impair the rights resulting therefrom except as may be otherwise provided herein. No remedy hereunder is intended to be exclusive of any other remedy but each and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing; nor shall the giving, taking or enforcement of any other or additional security, collateral or guaranty for the payment of the indebtedness secured under this Security Agreement operate to prejudice, waive or affect the security of this Security Agreement or any rights, powers or remedies hereunder, nor shall the Secured Party or holder of any of the Notes be required to first look to, enforce or exhaust such other or additional security, collateral or guaranty.

SECTION 6. THE SECURED PARTY.

6.1. Certain Duties and Responsibilities of Secured Party. (a) Except during the continuance of an Event of Default:

(1) the Secured Party undertakes to perform such duties and only such duties as are specifically set forth in this Security Agreement, and no implied covenants or obligations shall be read into this Security Agreement against the Secured Party; and

(2) in the absence of bad faith on its part, the Secured Party may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Secured Party and conforming to the requirements of this Security Agreement or the Lease; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Secured Party, the Secured Party shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Security Agreement.

(b) In case an Event of Default has occurred and is continuing, the Secured Party shall exercise such of the rights and powers vested in it by this Security Agreement for the benefit of the holders of the Notes, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Security Agreement shall be construed to relieve the Secured Party from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(2) the Secured Party shall not be liable for any error of judgment made in good faith by an officer of the Secured Party unless it shall be proved that the Secured Party was negligent in ascertaining the pertinent facts; and

(3) the Secured Party shall not be liable to the holder of any Note with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of two-thirds of the principal amount of the Notes outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Secured Party, or exercising any trust or power conferred upon the Secured Party under this Security Agreement.

(d) No provision of this Security Agreement shall require the Secured Party to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Whether or not therein expressly so provided, every provision of this Security Agreement relating to the conduct or affecting the liability of or affording protection to the Secured Party shall be subject to the provisions of this Section.

6.2. Certain Limitations on Secured Party's Rights to Compensation and Indemnification. The Secured Party agrees that it shall have no right against the holders of any Note for the payment of compensation for its services hereunder or any expenses, liabilities or disbursements incurred in connection with the exercise and performance of its powers and duties hereunder but, on the contrary, shall look solely to the Debtor under Section 2.6 of the Participation Agreement and to the Lessee under the Lease for such payment and that it shall have no lien on nor security interest in the Collateral as security for such compensation, expenses, reasonable counsel fees, if any, and disbursements except to the extent provided for in Section 5.7(a) hereof.

6.3. Certain Rights of Secured Party. (a) The Secured Party shall not be responsible for any recitals herein or in the Participation Agreement other than its own or for insuring the Equipment, or for paying or discharging any tax, assessment, governmental charge or lien affecting the Collateral, except any such tax, assessment, lien or charge arising through such Secured Party, or for the recording, filing or refiling of this Security Agreement, or of any supplemental or further mortgage or trust, nor shall the Secured Party be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements contained herein or in the Participation Agreement, and, except in the case of a default in the payment of the principal of, or interest or premium, if any, on any Note or a default of which the Secured Party has actual knowledge, the Secured Party shall be deemed to have knowledge of any default in the performance or observance of any such covenants, conditions or agreements only upon receipt of written notice thereof from one of the holders of the Notes or any other party to the Participation Agreement. The Secured Party shall promptly notify the Debtor and all holders of the Notes of any default of which the Secured Party has actual knowledge. Upon receipt by the Secured Party of such written notice from a holder of a Note, the Secured Party shall promptly notify the Debtor and all other holders of the Notes of such notice and the default referred to therein by prepaid registered mail addressed to them as provided in Section 8.10 hereof.

(b) The Secured Party makes no representation or warranty as to the value, title, condition or fitness for use of, or otherwise

with respect to, any Equipment or Item of Equipment or any substitute therefor.

(c) The Secured Party may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(d) Any request, direction or authorization by the Debtor or the Lessee shall be sufficiently evidenced by a request, direction or authorization in writing, delivered to the Secured Party, and signed in the name of the Debtor or the Lessee, as the case may be, by its Chairman of the Board, President, any Vice President, Treasurer or Secretary, and any resolution of the Board of Directors of the Debtor or the Lessee shall be sufficiently evidenced by a copy of such resolution certified by its Secretary or an Assistant Secretary to have been duly adopted and to be in full force and effect on the date of such certification, and delivered to the Secured Party.

(e) Whenever in the administration of the trust herein provided for, the Secured Party shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate purporting to be signed by the Chairman of the Board, the President, any Vice President, the Treasurer or the Secretary of the Debtor or the Lessee, as the case may be, and delivered to the Secured Party, and such certificate shall fully warrant to the Secured Party or any other person for any action taken, suffered or omitted on the faith thereof, but in its discretion the Secured Party may accept, in lieu thereof, other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

(f) The Secured Party may consult with counsel, appraisers, engineers, accountants and other skilled persons to be reasonably selected by the Secured Party, and the written advice of any thereof shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(g) Subject to the notice requirements of Section 6.3(a) hereof, the Secured Party shall be under no obligation to take any action to protect, preserve or enforce any rights or interests in the Collateral or to take any action towards the execution or enforcement of the trusts hereunder or otherwise hereunder, whether on its own motion or on the request of any other person, which in the opinion of the Secured Party may involve loss, liability or expense, unless the Debtor or one or more holders of the Notes outstanding shall offer and furnish reasonable security or indemnity against loss, liability and expense to the Secured Party.

(h) The Secured Party shall not be liable to the holder of any Note for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Security Agreement.

(i) The Secured Party shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, unless requested in writing to do so by the holders of not less than a majority in principal amount of the Notes then outstanding.

(j) The Secured Party may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys.

(k) The provisions of paragraphs (c) to (j) inclusive of this Section 6.3 shall be subject to the provisions of Section 6.1 hereof.

6.4. Status of Moneys Received. All moneys received by the Secured Party shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated in any manner from any other moneys, except to the extent required by law or Section 2.2(e) of the Participation Agreement, and may be deposited by the Secured Party under such general conditions as may be prescribed by law in the Secured Party's general banking department, and the Secured Party shall be under no liability for interest on any moneys received by it hereunder. The Secured Party and any affiliated corporation may become the owner of any Note secured hereby and be interested in any financial transaction with the Debtor or any affiliated corporation or the Lessee or any affiliated corporation, or the Secured Party may act as depository or otherwise in respect to other securities of the Debtor or any affiliated corporation or the Lessee or any affiliated corporation, all with the same rights which it would have if not the Secured Party. The Secured Party agrees that, whenever it shall be required to disburse moneys to the Note Purchaser or the Debtor under the provisions hereof, it shall do so by wire transfer of immediately available funds to a designated bank or trust company located in the continental United States whenever such method of payment is provided for in Schedule 2 to the Participation Agreement or is requested in writing by the Note Purchaser or the Debtor.

6.5. Resignation of Secured Party. The Secured Party may resign and be discharged of the trusts hereby created by mailing notice specifying the date when such resignation shall take effect to the Debtor and to the holders of the Notes at their addresses set forth in the Register. Such resignation shall take effect on the date specified in such notice (being not less than thirty days after the mailing of such notice) unless previously a successor secured party shall have been appointed as hereinafter

provided, in which event such resignation shall take effect immediately upon the appointment of such successor.

6.6. Removal of Secured Party. The Secured Party may be removed and/or a successor secured party may be appointed at any time by an instrument or concurrent instruments in writing signed and acknowledged by the holders of a majority in principal amount of the Notes and delivered to the Secured Party and to the Debtor and, in the case of the appointment of a successor secured party, to such successor secured party.

6.7. Successor Secured Party. Each secured party appointed in succession of the Secured Party named in this Security Agreement, or its successor in the trust, shall be a trust company or banking corporation organized under the laws of the United States or a state thereof, having a capital and surplus aggregating at least \$50,000,000, if there be such a trust company or banking corporation qualified, able and willing to accept the trust upon reasonable or customary terms.

6.8. Appointment of Successor Secured Party. If the Secured Party shall have given notice of resignation to the Debtor pursuant to Section 6.5 hereof or if notice of removal shall have been given to the Secured Party and the Debtor pursuant to Section 6.6 hereof, which notice does not appoint a successor secured party, a successor secured party may be appointed by the Debtor, or, if such successor secured party shall not have been so appointed or shall not have accepted such appointment within fifteen calendar days after the giving of such notice of resignation or the giving of any such notice of removal, as the case may be, a successor secured party may be appointed by the Debtor, the holder of any outstanding Note or, upon application of the retiring secured party, by any court of competent jurisdiction.

6.9. Merger or Consolidation of Secured Party. Any company into which the Secured Party, or any successor to it in the trust created by this Security Agreement, may be merged or converted or with which it or any successor to it may be consolidated or any company resulting from any merger or consolidation to which the Secured Party or any successor to it shall be a party (provided such company shall be a corporation organized under the laws of the United States of America or of a state thereof, having a capital and surplus of at least \$50,000,000), shall be the successor to the Secured Party under this Security Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto. The Debtor covenants that in case of any such merger, consolidation or conversion it will, upon the request of the merged, consolidated or converted corporation, execute, acknowledge and cause to be recorded or filed suitable instruments in writing to confirm the estates, rights and interests of such corporation as secured party under this Security Agreement.

6.10. Conveyance Upon Request of Successor Secured Party. Should any deed, conveyance or instrument in writing from

the Debtor be required by any successor secured party for more fully and certainly vesting in and confirming to such new secured party such estates, rights, powers and duties, then upon request any and all such deeds, conveyances and instruments in writing shall be made, executed, acknowledged and delivered, and shall be caused to be recorded and/or filed, by the Debtor.

6.11. Acceptance of Appointment by Successor Secured Party. Any new secured party appointed pursuant to any of the provisions hereof shall execute, acknowledge and deliver to the Debtor and to the Note Purchaser an instrument accepting such appointment, and thereupon such new secured party, without any further act, deed or conveyance, shall become vested with all the estates, properties, rights, powers and trusts of its predecessor in the rights hereunder with like effect as if originally named as secured party herein; but nevertheless, upon the written request of the Debtor or the Note Purchaser or of the successor secured party, the secured party ceasing to act shall execute and deliver an instrument transferring to such successor secured party, upon the trusts herein expressed, all the estates, properties, rights, powers and trusts of the secured party so ceasing to act, and shall duly assign, transfer and deliver any of the property and moneys held by such secured party to the successor secured party so appointed in its or his place.

SECTION 7. LIMITATIONS OF LIABILITY.

It is expressly understood and agreed by and between the Debtor, the Trustor, the Secured Party and their respective successors and assigns that this Security Agreement is executed by The Connecticut Bank and Trust Company, not individually or personally but solely as Trustee under the Trust Agreement in the exercise of the power and authority conferred and vested in it as such Trustee, that, except as expressly provided in Section 2.2 hereof, each and all of the representations, undertakings and agreements herein made on the part of the Debtor are each and every one of them made and intended not as personal representations, undertakings and agreements by The Connecticut Bank and Trust Company or the Trustor, or for the purpose or with the intention of binding The Connecticut Bank and Trust Company or the Trustor personally, but are made and intended for the purpose of binding only the Trust Estate as defined in the Trust Agreement, that this Security Agreement is executed and delivered by The Connecticut Bank and Trust Company solely in the exercise of the powers expressly conferred upon The Connecticut Bank and Trust Company as trustee under the Trust Agreement, that actions to be taken by the Debtor pursuant to its obligations hereunder may, in certain instances, be taken by the Debtor only upon specific authority of the Trustor, that nothing herein contained shall be construed as creating any liability on The Connecticut Bank and Trust Company or the Trustor, individually or personally, or any incorporator or any past, present or future subscriber to the capital stock of, or stockholder, officer or director of, The

Connecticut Bank and Trust Company or the Trustor, to perform any covenant either express or implied contained herein, all such liability, if any, being expressly waived by the Secured Party and by any person claiming by, through or under the Secured Party, and that so far as The Connecticut Bank and Trust Company or the Trustor, individually or personally are concerned, the Secured Party and any person claiming by, through or under the Secured Party shall look solely to the Collateral for the performance of any obligation under any of the instruments referred to herein; provided that nothing in this Section 7 shall be construed to limit in scope or substance those representations and warranties of The Connecticut Bank and Trust Company made expressly in its individual capacity set forth in the Participation Agreement. Any obligation of the Debtor hereunder may be performed by the Trustor, and any such performance shall not be construed as revocation of the trust created by the Trust Agreement. Nothing contained in this Security Agreement shall restrict the operation of the provisions of the Trust Agreement with respect to its revocation or the resignation or removal of the Trustee thereunder.

SECTION 8. MISCELLANEOUS.

8.1. Registration and Execution. The Notes shall be registered as to principal and interest and shall be signed on behalf of the Debtor by its President or any Vice President or any other officer of the Debtor who, at the date of the actual execution thereof, shall be a proper officer to execute the same.

8.2. Payment of the Notes. (a) The principal of, and premium, if any, and interest on the Notes shall be payable by wire transfer of immediately available funds, in the case of the original Note Purchaser, as provided in Section 6.4 or as such Note Purchaser shall otherwise designate, and in the case of all other holders of the Notes, to such bank or trust company in the continental United States for the account of such holder as the holder shall designate to the Security Trustee from time to time in writing, and if no such designation is in effect, by check, duly mailed, by first class mail, postage prepaid, or delivered to such holder at its address appearing on the Register as defined in Section 8.3. All payments so made shall be valid and effective to satisfy and discharge the liability upon such Note to the extent of the sums so paid. Each holder (or the person for whom such holder is a nominee) by its acceptance of any Note agrees that, before selling, transferring or otherwise disposing of such Note, it will present such Note to the Debtor for transfer and notation as provided in Sections 8.4 and 8.5.

(b) All amounts constituting payment of the installments of rental under the Lease or Casualty Value received by the Secured Party and applied on the Notes pursuant to Section 4 hereof shall be valid and effective to satisfy and discharge the liability upon such Notes to the extent of the amounts so received and applied.

8.3. The Register. The Debtor will keep at its principal office a register for the registration and transfer of

Notes (herein called the "Register"). The names and addresses of the holders of the Notes, the transfers of the Notes and the names and addresses of the transferees of all Notes shall be registered in the Register, with copies to be provided by the Debtor to the Secured Party.

8.4. Transfers and Exchanges of Notes; Lost or Mutilated Notes.

(a) The holder of any Note may transfer such Note upon the surrender thereof at the principal corporate office of the Debtor. Thereupon, the Debtor shall execute in the name of the transferee a new Note or Notes in denominations not less than \$50,000 (except as may be necessary to reflect any principal amount not evenly divisible by \$50,000) in aggregate principal amount equal to the unpaid principal amount of the Note so surrendered and deliver such new Note or Notes as instructed by such holder to such transferee and provide written notice thereof to the Security Trustee.

(b) The holder of any Note or Notes may surrender such Note or Notes at the principal office of the Debtor, accompanied by a written request for a new Note or Notes in the same aggregate principal amount as the then unpaid principal amount of the Note or Notes so surrendered and in denominations of \$50,000 (except as may be necessary to reflect any principal amount not evenly divisible by \$50,000) or such amount in excess thereof as may be specified in such request. Thereupon, the Debtor shall execute in the name of such holder a new Note or Notes in the denomination or denominations so requested and in the aggregate principal amount equal to the aggregate unpaid principal amount of the Note or Notes so surrendered and deliver such new Note or Notes to such holder, and shall advise the Secured Party thereof.

(c) All Notes presented or surrendered for exchange or transfer shall be accompanied (if so required by the Debtor) by a written instrument or instruments of assignment or transfer, in form satisfactory to the Debtor, duly executed by the registered holder or by its attorney duly authorized in writing. The Debtor shall not be required to make a transfer or an exchange of any Note for a period of ten days preceding any installment payment date with respect thereto.

(d) No notarial act shall be necessary for the transfer or exchange of any Note pursuant to this Section 8.4, and the holder of any Note issued as provided in this Section 8.4 shall be entitled to any and all rights and privileges granted under this Security Agreement to a holder of a Note.

(e) In case any Note shall become mutilated or be destroyed, lost or stolen, the Debtor, upon the written request of the holder thereof, shall execute and deliver a new Note in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. The applicant for a substituted Note shall furnish to the Debtor and the Secured Party such security or indemnity as may be required by the Debtor and the Secured Party to save them harmless from all risks, and the applicant shall also furnish to the Debtor such mutilated Note or evidence to its satisfaction of the destruction, loss or theft of the applicant's Note and of the ownership thereof. In case any Note which has matured or will mature within three months shall become mutilated or be destroyed, lost or stolen, the Debtor may, instead of issuing a substituted Note, pay or authorize the payment of the same in accordance with the provisions thereof (without surrender thereof except in the case of a mutilated Note), if the applicant for such payment shall furnish to the Debtor such security or indemnity as the Debtor may require to save it harmless, and shall furnish the mutilated Note or evidence to the satisfaction of the Debtor of the destruction, loss or theft of such Note and the ownership thereof. If the Note Purchaser, or its nominee, is the owner of any such lost, stolen or destroyed Note, then the affidavit of the president, vice president, treasurer or assistant treasurer of such Note Purchaser setting forth the fact of loss, theft or destruction and of its ownership of the Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof and no indemnity shall be required as a condition to execution and delivery of a new Note other than the written agreement of such Note Purchaser to indemnify the Debtor for any claims or action against it (and for its attorney's fees) resulting from the issuance of such new Note or the reappearance of the old Note. The Debtor shall advise the Secured Party when any new Note is issued pursuant to this Section 8.4(e) as to the details relating to such issuance.

8.5. The New Notes.

(a) Each new Note (herein, in this Section 8.5, called a "New Note") issued pursuant to Section 8.4(a), (b) or (e) in exchange for or in substitution or in lieu of an outstanding Note (herein, in this Section 8.5, called an "Old Note") shall be dated the date of such Old Note. The Debtor shall mark, at the direction of the Secured Party and on the basis of information provided by the Secured Party, on each New Note (i) the dates to which principal and interest have been paid on such Old Note, (ii) all payments and prepayments of principal previously made on such Old Note which are allocable to such New Note, and (iii) the amount of each installment payment payable on such New Note. Each installment payment payable on such New Note on any date shall bear the same proportion to the installment payment payable on such Old Note on such

date as the original principal amount of such New Note bears to the original aggregate principal amount of such Old Note. Interest shall be deemed to have been paid on such New Note to the date on which interest shall have been paid on such Old Note, and all payments and prepayments of principal marked on such New Note, as provided in clause (ii) above, shall be deemed to have been made thereon.

(b) Upon the issuance of a New Note pursuant to Section 8.4(a), (b) or (e), the Debtor may require the payment of a sum to reimburse it for, or to provide it with funds for, the payment of any tax or other governmental charge or any other charges and expenses connected therewith which are paid or payable by the Debtor.

(c) All New Notes issued pursuant to Section 8.4(a), (b) or (e) in exchange for or in substitution or in lieu of Old Notes shall be valid obligations of the Debtor evidencing the same debt as the Old Notes and shall be entitled to the benefits and security of this Security Agreement to the same extent as the Old Notes.

(d) Upon the issuance of any Note pursuant to this Security Agreement, the Debtor may submit to the Trustor a request that the Trustor prepare and deliver to the Debtor an amortization schedule with respect to such Note setting forth the amount of the installment payments to be made on such Note after the date of issuance thereof and the unpaid principal balance of such Note after each such installment payment and upon receipt thereof by the Debtor from the Trustor, the Debtor will deliver said schedule to the Secured Party. The Secured Party shall deliver, or send by first-class mail, postage prepaid, one copy of the applicable schedule to the holder of such Note at its address set forth in the Register.

8.6. Cancellation of Notes. All Notes surrendered for the purpose of payment, redemption, transfer or exchange shall be delivered to the Debtor for cancellation or, if surrendered to the Debtor, shall be cancelled by it, and no Notes shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Security Agreement.

8.7. Registered Owner. The person in whose name any Note shall be registered shall be deemed and treated as the owner thereof for all purposes of this Security Agreement and the Debtor shall not be affected by any notice to the contrary. Payment of or on account of the principal of, premium, if any, and interest on such Note shall be made only to or upon the order in writing of such registered owner. For the purpose of any request, direction or consent hereunder, the Debtor may deem and treat the registered owner of any Note as the owner thereof without production of such Note.

8.8. Successors and Assigns. Whenever any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all the covenants, promises and agreements in this Security Agreement contained by or on behalf of the Debtor or by or on behalf of the Secured Party, shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

8.9. Partial Invalidity. The unenforceability or invalidity of any provision or provisions of this Security Agreement shall not render any other provision herein contained unenforceable or invalid, provided that nothing contained in this Section 8.9 shall be construed to be in derogation of any rights or immunities of the Debtor in its individual capacity under Section 7 hereof, or to amend or modify any limitations or restrictions on the Secured Party or the holder of any Note or their respective successors or assigns under said Section 7.

8.10. Communications. All communications provided for herein shall be in writing and shall be deemed to have been given when delivered personally or otherwise actually received at the following addresses:

If to the Debtor: The Connecticut Bank and Trust
 Company
 One Constitution Plaza
 Hartford, Connecticut 06115
 Attention: Corporate Trust
 Department

(With a copy of such notice,
report or document to the Trustor)

If to the Trustor: Valley Bank Leasing, Inc.
 234 North Central Avenue
 Suite 522
 Phoenix, Arizona 85001
 Attention: Lease Administrator

If to the Secured
Party: Mercantile-Safe Deposit and Trust
 Company
 Two Hopkins Plaza
 P. O. Box 2258
 Baltimore, Maryland 21203
 Attention: Corporate Trust Department

If to the
holder of Notes: At its address for notices set
 forth in the Register

party at such other address as such party may
notice duly given in accordance with this Section
or to any parties.
designated to the

1. Supplemental Security Agreements; Waivers.
Supplemental Security Agreements Without Noteholders' Consent.

and the Secured Party from time to time and at any
not to the restrictions in this Security Agreement
(last Agreement contained, may enter into an agreement
its supplemental hereto and which thereafter shall
t hereof for any one or more of the following purposes:

(i) to add to the covenants and agreements to
be observed by, and to surrender any right or power
reserved to or conferred upon the Debtor;

(ii) to subject to the security interest of
this Security Agreement additional property hereafter
acquired by the Debtor and intended to be subjected to
the security interest of this Security Agreement, and
to correct and amplify the description of any property
subject to the security interest of this Security
Agreement;

(iii) to permit the qualification of this Security
Agreement under the Trust Indenture Act of 1939, as
amended, or any similar Federal statute hereafter in
effect, except that nothing herein contained shall permit
or authorize the inclusion of the provisions referred to
in Section 316(a)(2) of said Trust Indenture Act of 1939
or any corresponding provision in any similar Federal
statute hereafter in effect; or

(iv) for any other purpose not inconsistent with
the terms of this Security Agreement, or to cure any
ambiguity or cure, correct or supplement any defect or
inconsistent provisions of this Security Agreement or
any supplement;

and the Debtor and the Secured Party covenant to perform all
requirements of any such supplemental agreement. No restriction
or obligation imposed upon the Debtor or the Secured Party may,
except as otherwise provided in this Security Agreement, be
waived or modified by such supplemental agreements, or otherwise.

(b) Waivers and Consents by Noteholders; Supplemental
Security Agreements with Noteholders' Consent. Upon the waiver
or consent of the holders of at least 66-2/3% in aggregate
principal amount of the Notes (x) the Debtor may, subject to the
provisions of the Trust Agreement, take any action prohibited,
or omit the taking of any action required, by any of the provisions
of this Security Agreement or any agreement supplemental hereto,
or (y) the Debtor and the Secured Party may enter into an
agreement or agreements supplemental hereto for the purpose of

adding, changing or eliminating any provisions of this Security Agreement or of any agreement supplemental hereto or modifying in any manner the rights and obligations of the holders of the Notes and the Debtor; provided, that no such waiver or supplemental agreement shall (i) impair or affect the right of any holder to receive payments or prepayments of the principal of and payments of the interest on its Note, as therein and herein provided, without the consent of such holder, (ii) permit the creation of any lien or security interest with respect to any of the Collateral, without the consent of the holders of all the Notes at the time outstanding, (iii) effect the deprivation of the holder of any Note of the benefit of the security interest of this Security Agreement upon all or any part of the Collateral without the consent of such holder, (iv) reduce the aforesaid percentage of the aggregate principal amount of Notes, the holders of which are required to consent to any such waiver or supplemental agreement pursuant to this Section, without the consent of the holders of all of the Notes at the time outstanding, or (v) modify the rights, duties or immunities of the Secured Party, without the consent of the Secured Party and of the holders of all of the Notes at the time outstanding.

(c) Notice of Supplemental Security Agreements.

Promptly after the execution by the Debtor and the Secured Party of any supplemental agreement pursuant to the provisions of paragraph (a) or (b) of this Section, the Secured Party shall give written notice, setting forth in general terms the substance of such supplemental agreement, together with a conformed copy thereof, mailed, first-class, postage prepaid, to each holder of the Notes. Any failure of the Secured Party to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental agreement.

(d) Opinion of Counsel Conclusive as to Supplemental Security Agreements. The Secured Party is hereby authorized to join with the Debtor in the execution of any such supplemental agreement authorized or permitted by the terms of this Security Agreement and to make the further agreements and stipulations which may be therein contained, and the Secured Party may receive an opinion of counsel as conclusive evidence that any supplemental agreement executed pursuant to the provisions of this Section 8.11 complies with the requirements of this Section 8.11.

8.12. Amendments. This Security Agreement may, from time to time and at any time, be amended or supplemented by an instrument or instruments in writing executed by the parties hereto, but only as provided hereinabove.

8.13. Release. The Secured Party shall release this Security Agreement and the security interest granted hereby by proper instrument or instruments upon presentation of satisfactory evidence that all indebtedness secured hereby has been fully paid or discharged.

8.14. Business Day. Notwithstanding anything herein or in any other Operative Agreement to the contrary, if the date on which any payment is to be made pursuant to this Security Agreement is not a business day, the payment otherwise payable on such date shall be payable on the next succeeding business day. For purposes of this Security Agreement, the term "business day" means calendar days, excluding Saturdays, Sundays and holidays on which banks in the States of Illinois, Connecticut, California, Arizona or Maryland are authorized or required to close.

8.15. Governing Law. This Security Agreement and the Notes shall be construed in accordance with and governed by the laws of the State of Maryland; provided, however, that the Secured Party shall be entitled to all the rights conferred by any applicable Federal statute, rule or regulation.

8.16. Counterparts. This Security Agreement may be executed, acknowledged and delivered in any number of counterparts, each of such counterparts constituting an original but all together only one Security Agreement.

8.17. Headings. Any headings or captions preceding the text of the several sections hereof are intended solely for convenience of reference and shall not constitute a part of this Security Agreement nor shall they affect its meaning, construction or effect.

IN WITNESS WHEREOF, the Debtor and the Secured Party have caused this Security Agreement to be executed, as of the day and year first above written.

[CORPORATE SEAL]

ATTEST:

Authorized Officer

THE CONNECTICUT BANK AND TRUST COMPANY,
not individually but solely as
Trustee under I.C.G. Trust No. 81-3

By _____

Authorized Officer

[CORPORATE SEAL]

ATTEST:

A. Palmer
Asst. Corporate Trust Officer

MERCANTILE-SAFE DEPOSIT AND TRUST
COMPANY

By _____

[Signature]
Its Assistant Vice President

STATE OF CONNECTICUT)
) SS
COUNTY OF HARTFORD)

On this ____ day of _____, 1981, before me personally appeared _____, to me personally known, who being by me duly sworn, says that he is an authorized officer of THE CONNECTICUT BANK AND TRUST COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Notary Public

(SEAL)

My commission expires:

STATE OF MARYLAND)
) SS
CITY OF BALTIMORE)

On this 22nd day of June, 1981, before me personally appeared R. E. Schreiber, to me personally known, who being by me duly sworn, says that he is an Assistant Vice President of MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.



Notary Public

(SEAL)

My commission expires: 7-1-82

DESCRIPTION OF EQUIPMENT PRIOR TO REBUILDING

<u>Number of Hulks</u>	<u>Description of Hulks</u>	<u>Hulk Purchase Price Per Unit</u>
11	SW-14 locomotives marked and numbered as follows: IC 463, IC 404, ICG 476, IC 442, <u>ICG</u> 443, IC 470, ICG 475, <u>CIW</u> 103, ICG 465, IC 462 and IC 457	\$39,000

DESCRIPTION OF EQUIPMENT FOLLOWING REBUILDING
AND OF PURCHASED EQUIPMENT

- 11 Rebuilt SW-14 Diesel Electric Locomotives Marked
 and Numbered ICG 1478 through ICG 1488, both
 inclusive
- 240 100-Ton Open Top Hopper Cars Marked and Numbered
 ICG 387500 through 387739, both inclusive

PRINCIPAL AMORTIZATION SCHEDULE

(Payments Required Per \$1,000,000 Principal Amount
of Secured Notes Issued by Debtor)

<u>Date Due</u>	<u>Total Principal Payment</u>	<u>Principal Balance</u>
1/1/84	\$13,999.20	\$986,000.80
4/1/84	14,349.18	971,651.62
7/1/84	14,707.91	956,943.71
10/1/84	15,075.61	941,868.10
1/1/85	15,452.50	926,415.61
4/1/85	15,838.81	910,576.80
7/1/85	16,234.78	894,342.02
10/1/85	16,640.65	877,701.37
1/1/86	17,056.67	860,644.70
4/1/86	17,483.08	843,161.62
7/1/86	17,920.16	825,241.46
10/1/86	18,368.16	806,873.29
1/1/87	18,827.37	788,045.93
4/1/87	19,298.05	768,747.88
7/1/87	19,780.50	748,967.37
10/1/87	20,275.02	728,692.36
1/1/88	20,781.89	707,910.47
4/1/88	21,301.44	686,609.03
7/1/88	21,833.97	664,775.05
10/1/88	22,379.82	642,395.23
1/1/89	22,939.32	619,455.91
4/1/89	23,512.80	595,943.11
7/1/89	24,100.62	571,842.49
10/1/89	24,703.14	547,139.35
1/1/90	25,320.72	521,818.63
4/1/90	25,953.73	495,864.90
7/1/90	26,602.58	469,262.32
10/1/90	25,119.74	444,142.58
1/1/91	23,295.64	420,846.95
4/1/91	28,215.46	392,631.49
7/1/91	28,313.91	364,317.58
10/1/91	29,891.26	334,426.32
1/1/92	30,638.54	303,787.77
4/1/92	31,404.51	272,383.27
7/1/92	36,089.54	236,293.73
10/1/92	36,991.78	199,301.95
1/1/93	37,916.57	161,385.38
4/1/93	38,864.49	122,520.90
7/1/93	39,836.10	82,684.80
10/1/93	40,832.00	41,852.80
1/1/94	41,852.80	.00

THE CONNECTICUT BANK AND TRUST COMPANY
As Trustee under I.C.G. Trust No. 81-3

SECURED NOTE

No. R-

\$

, 1981

FOR VALUE RECEIVED, the undersigned, THE CONNECTICUT BANK AND TRUST COMPANY, not individually but solely as trustee (the "Trustee") under that certain Trust Agreement dated as of June 1, 1981 with Valley Bank Leasing, Inc. (the "Trustor"), sometimes identified as I.C.G. Trust No. 81-3 (the "Trust Agreement") promises to pay to

FIRST INTERSTATE BANK OF CALIFORNIA

or registered assigns,
the principal sum of

and to pay interest accrued and unpaid from the date hereof until maturity (computed on the actual number of days elapsed divided by 360) on the unpaid principal hereof, in installments as follows:

(i) Installments of accrued and unpaid interest only are payable on October 1, 1981 and on the first day of each January, April, July and October thereafter to and including October 1, 1983; followed by

(ii) Forty-one (41) installments of principal and interest, the amount of the principal portion of each respective installment shall be equal to the amount therefor specified on Schedule A attached hereto and made a part hereof, payable on January 1, 1984 and on the first day of each April, July, October and January thereafter to and including January 1, 1994; and

(iii) Interest on overdue principal and (to the extent legally enforceable) on overdue interest due on or prior to January 1, 1984 at a rate per annum equal to 1% in excess of the Prime Rate after maturity, whether by acceleration or otherwise, until paid, and for such sums due after January 1, 1984, interest at a rate per annum equal to 1% in excess of 120% of the Prime Rate for such period.

For the period from and after the date of this Note to but not including January 1, 1984, interest accrued and payable on this Note shall be computed at the Prime Rate, and for the period from and after January 1, 1984 interest accrued and payable on this Note shall be computed at 120% of the Prime Rate. As used herein, the term "Prime Rate" shall mean that rate of interest which from time to time is announced by First Interstate Bank of California as its prime rate.

Both the principal hereof and interest hereon are payable to the registered holder hereof in coin or currency of the United States of America which at the time of payment shall be legal tender for the payment of public and private debts. If the date on which any payment on this Note is to be made is not a business day, the payment otherwise payable on such date shall be payable on the next succeeding business day. For purposes of this Note, the term "business day" means calendar days, excluding Saturdays, Sundays and holidays on which banks in the States of Illinois, Connecticut, California or Maryland are authorized or required to close.

This Note is one of the Secured Notes of the Trustee not exceeding \$11,690,400 in aggregate principal amount (the "Notes") issued under and pursuant to the Participation Agreement dated as of June 1, 1981 among the Trustee, the Trustor, Illinois Central Gulf Railroad Company (the "Lessee"), Waterloo Railroad Company, Mercantile-Safe Deposit and Trust Company, as security trustee (the "Secured Party") and the institutional investor referred to in Schedule 2 thereto, and also issued under and equally and ratably with said other Notes secured by that certain Security Agreement-Trust Deed dated as of June 1, 1981 (the "Security Agreement") from the Trustee to the Secured Party. Reference is made to the Security Agreement and all supplements and amendments thereto executed pursuant to the Security Agreement for a description of the Collateral (as defined in the Security Agreement), and the nature and extent of the security and rights of the Secured Party, the holder or holders of the Notes and of the Trustee in respect thereof.

This Note may be prepaid by the Trustee upon not less than ten business days prior written notice given in the manner provided in Section 8.10 of the Security Agreement in an amount equal to the entire unpaid principal plus accrued interest to the date of prepayment, but without premium.

The terms and provisions of the Security Agreement and the rights and obligations of the Secured Party and the rights of the holders of the Notes may be changed and modified to the extent permitted by and as provided in the Security Agreement.

This Note is a registered Note and is transferable only by surrender thereof at the principal office of the Trustee, duly endorsed or accompanied by a written instrument of transfer, duly executed by the registered holder of this Note or his attorney duly authorized in writing.

This Note and the Security Agreement are governed by and construed in accordance with the laws of the State of Maryland.

It is expressly understood and agreed by and between the Trustee, the Trustor, the holder of this Note and the Secured Party and their respective successors and assigns, that this Note is executed by The Connecticut Bank and Trust Company, not individually or personally but solely as Trustee under the Trust Agreement in the exercise of the power and authority conferred and vested in it as such Trustee; and it is expressly understood and agreed that nothing herein contained shall be construed as creating any liability of The Connecticut Bank and Trust Company, or of the Trustor, individually or personally, for or on account of any express or implied representation, warranty, covenant or agreement made herein (other than those expressly made in the Trustee's individual capacity in the Participation Agreement and in Section 2.2 of the Security Agreement), all such liability, if any, being expressly waived by the holder of this Note and by the Secured Party and by each and every person now or hereafter claiming by, through or under the holder of this Note or the Secured Party; and that so far as The Connecticut Bank and Trust Company or the Trustor, individually or personally, are concerned, the holder of this Note and the Secured Party and any person claiming by, through or under the holder of this Note or the Secured Party shall look solely to the Collateral for payment of the indebtedness evidenced by this Note or of any liability resulting from or arising out of any breach of any representation, warranty or covenant (other than those expressly made in the Trustee's individual capacity in the Participation Agreement and in Section 2.2 of the Security Agreement) made by the Trustee herein.

IN WITNESS WHEREOF, the Trustee has caused this Note to be duly executed.

THE CONNECTICUT BANK AND TRUST COMPANY, not in its individual capacity but solely as Trustee

By _____
Its _____

NOTICE

THIS NOTE HAS NOT BEEN REGISTERED PURSUANT TO THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE OFFERED OR SOLD UNLESS IT IS REGISTERED UNDER THE APPLICABLE SECURITIES LAWS OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

Inquiries Should be Made to the Security Trustee if Certification as to Balance Due Hereunder is Required.

13160

RECORDATION NO. Filed 1425

JUN 25 1981 - 10 20 AM

INTERSTATE COMMERCE COMMISSION

Execution Copy
Matter No. 34446-5

SECURITY AGREEMENT-TRUST DEED

Dated as of June 1, 1981

From

THE CONNECTICUT BANK AND TRUST COMPANY,
as Trustee under I.C.G. Trust No. 81-3

DEBTOR

To

MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY

SECURED PARTY

(I.C.G. Trust No. 81-3)

(11 Rebuilt Locomotives and 240 Open Top Hopper Cars)

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ATTACHMENTS TO SECURITY AGREEMENT-TRUST DEED:

Schedule 1 - Description of Equipment Prior to Rebuilding
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SECURITY AGREEMENT-TRUST DEED

THIS SECURITY AGREEMENT-TRUST DEED dated as of June 1, 1981 (the "Security Agreement") is from THE CONNECTICUT BANK AND TRUST COMPANY, not in its individual capacity but solely in its capacity as Trustee (the "Debtor") under a Trust Agreement dated as of June 1, 1981 (the "Trust Agreement") with Valley Bank Leasing, Inc. (the "Trustor"), Debtor's post office address being One Constitution Plaza, Hartford, Connecticut 06115, Attention: Corporate Trust Department, to MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY (the "Secured Party") whose post office address is P.O. Box 2258, Baltimore, Maryland 21203, Attention: Corporate Trust Department.

R E C I T A L S:

A. The Debtor and the Secured Party have entered into a Participation Agreement dated as of June 1, 1981 (the "Participation Agreement") with Illinois Central Gulf Railroad Company, a Delaware corporation (the "Lessee"), Waterloo Railroad Company ("Waterloo") the Trustor and the institutional investor referred to in Schedule 2 thereto (the "Note Purchaser") providing for the commitment of the Note Purchaser to purchase on a Deposit Date (as defined in the Participation Agreement) not later than July 1, 1981, the Secured Notes (the "Notes") of the Debtor not exceeding an aggregate principal amount of \$11,690,400. The Notes are to be dated the date of issue, to bear interest from such date, to but not including January 1, 1984 at the Prime Rate and thereafter prior to maturity at 120% of the Prime Rate, in each case from time to time in effect, to be expressed to mature in nine (9) installments of interest only payable on October 1, 1981, and on the first day of each January, April, July and October thereafter to and including October 1, 1983, followed by 41 consecutive quarterly installments, including both principal and interest, the principal portion thereof to be payable in accordance with the amortization schedule set forth in Schedule 3 hereto with the first such installment to be paid on January 1, 1984, and the balance of such installments at three-month intervals thereafter; and to be otherwise substantially in the form attached hereto as Exhibit A. As used herein and in the Notes, the term "Prime Rate" shall mean that rate of interest which from time to time is announced by First Interstate Bank of California as its prime rate.

B. The Notes and all principal thereof and interest (and premium, if any) thereon and all additional amounts and other sums at any time due and owing from or required to be paid by the Debtor under the terms of the Notes, this Security Agreement or the Participation Agreement are hereinafter sometimes referred to as "indebtedness hereby secured".

C. All of the requirements of law relating to the transaction contemplated hereby have been fully complied with and all other acts and things necessary to make this Security Agreement a valid, binding and legal instrument for the security of the Notes have been done and performed.

SECTION 1. GRANT OF SECURITY.

The Debtor in consideration of the premises and other good and valuable consideration, receipt whereof is hereby acknowledged, and in order to secure the payment of the principal of and interest on the Notes according to their tenor and effect, and to secure the payment of all other indebtedness hereby secured and the performance and observance of all of the Debtor's covenants and conditions in the Notes and in this Security Agreement and in the Participation Agreement contained, does hereby convey, warrant, mortgage, assign, pledge and grant the Secured Party, its successors in trust and assigns for the ratable use and benefit of the holders of the Notes, a security interest in all and singular of the Debtor's right, title and interest in and to the Escrow Fund (as defined in the Participation Agreement), and the properties, rights, interests and privileges described in Sections 1.1, 1.2 and 1.3 hereof, subject to those limitations set forth in Section 1.4 hereof; excluding, however, those Excepted Rights in Collateral as defined in Section 1.6 hereof (all of which properties other than the Excepted Rights in the Collateral, being hereby mortgaged, assigned and pledged or intended so to be are hereinafter collectively referred to as the "Collateral").

1.1. Equipment Collateral. Collateral includes (i) the used railroad locomotives described in Schedule 1 attached hereto and made a part hereof, which used locomotives are to be rebuilt pursuant to a Reconstruction Agreement dated as of June 1, 1981 (the "Reconstruction Agreement") between Waterloo as rebuilder and the Debtor as provided therein and to be identified thereafter as described in Schedule 2 attached hereto and made a part hereof and (ii) the railroad equipment to be sold pursuant to a Purchase Agreement dated as of June 1, 1981 between Waterloo as seller and the Debtor as provided therein and to be identified thereafter as described in Schedule 2 attached hereto and made a part hereof (said rebuilt used locomotives as reconstructed under the Reconstruction Agreement are hereinafter referred to as "Rebuilt Equipment" and "Rebuilt Item" or "Item of Rebuilt Equipment" shall mean individually the various items thereof and said railroad rolling stock newly constructed under the Purchase Agreement are hereinafter referred to as "New Equipment" and "New Item" or "Item of New Equipment" shall mean individually the various items thereof; collectively as described in Schedules 1 and 2 the "Equipment" and individually an "Item" or "Item of Equipment"), and which constitute the Equipment leased and delivered under that certain Equipment Lease dated as of June 1, 1981 (the "Lease") between the Debtor,

as lessor, and the Lessee, as lessee; together with all accessories, equipment, parts and appurtenances appertaining or attached to any of the Equipment hereinabove described, whether now owned or hereafter acquired, except such thereof as remain the property of the Lessee under the Lease, and all substitutions, renewals or replacements of and additions, improvements, accessions and accumulations to any and all of said Equipment, except such thereof as remain the property of the Lessee under the Lease, together with all the rents, issues, income, profits and avails therefrom.

1.2. Rental Collateral. Collateral also includes all right, title, interest, claims and demands of the Debtor as lessor in, to and under the Lease, including all extensions of the term of the Lease, together with all rights, powers, privileges, options and other benefits of the Debtor as lessor under the Lease, including, without limitation:

(1) the immediate and continuing right to receive and collect all rental, casualty value payments, insurance proceeds, condemnation awards and other payments, tenders and security now or hereafter payable or receivable by the Lessor under the Lease pursuant thereto, except those sums reserved as Excepted Rights in Collateral under Section 1.6 hereof;

(2) the right to make all waivers and agreements and to enter into any amendments relating to the Lease or any provision thereof, except with regard to the right of the Debtor or the Trustor to receive those sums reserved as Excepted Rights in Collateral under Section 1.6 hereof; provided that so long as no Event of Default hereunder shall have occurred and be continuing, or an Event of Default hereunder shall have occurred and be continuing due solely to an Event of Default having occurred under Sections 14.1(e) and 14.1(f) of the Lease and the Lessee shall then have otherwise performed all of its obligations under the Lease, the Secured Party agrees that it will not enter into any such waiver, agreement or amendment without the written concurrence of the Debtor; and

(3) subject to those rights granted the Debtor under Section 5.3 hereof, the right to take such action upon the occurrence of an Event of Default under the Lease or an event which, with the lapse of time or the giving of notice, or both, would constitute an Event of Default under the Lease, including the commencement, conduct and consummation of legal, administrative or other proceedings, as shall be permitted by the Lease or by law, and to do any and all other things whatsoever which the Debtor or any lessor is or may be entitled to do under the Lease;

it being the intent and purpose hereof that subject always to Excepted Rights in Collateral (as defined in Section 1.6 hereof), the assignment and transfer to the Secured Party of said rights, powers, privileges, options and other benefits shall be effective

and operative immediately and shall continue in full force and effect, and the Secured Party shall have the right to collect and receive all rental and casualty value payments and other sums for application in accordance with the provisions of Section 4 hereof at all times during the period from and after the date of this Security Agreement until the indebtedness hereby secured has been fully paid and discharged.

1.3. Reconstruction Agreement Collateral. Collateral also includes all right, title and interest of the Debtor to the Reconstruction Agreement including, without limitation:

(1) the immediate and continuing right to receive and collect all payments due to the Debtor thereunder and now or hereafter receivable by the Debtor under the Reconstruction Agreement and pursuant thereto;

(2) the right to approve with the Debtor's concurrence all waivers, agreements and amendments relating to the Reconstruction Agreement or any provision thereof; and

(3) the right to take such action upon the failure of Waterloo to reconstruct the Equipment on or before October 15, 1981 as is provided in Section 11 of the Reconstruction Agreement.

The assignment and transfer to the Secured Party of said rights, powers and other benefits shall be effective and operative immediately and shall continue in full force and effect, at all times during the period from and after the date of this Security Agreement until the indebtedness hereby secured has been fully paid and discharged.

1.4. Limitations to Security Interest. The security interest granted by this Section 1 is subject to (a) the right, title and interest of the Lessee in and to the Equipment under the Lease so long as no Event of Default under the Lease, or any event which with the lapse of time or the giving of notice, or both, would constitute such an Event of Default under the Lease shall have occurred and be continuing, (b) the lien of current taxes or assessments not in default (but only if such taxes are entitled to priority as a matter of law), or, if delinquent, the validity of which is being contested in good faith, (c) liens of vendors, mechanics, materialmen and laborers for work or service performed, or materials furnished which are not yet due and payable, including, without limitation, the rights of Waterloo as seller, arising under the Hulk Purchase Agreement (as defined in the Participation Agreement) and of Waterloo as rebuilder, arising under the Reconstruction Agreement, (d) liens and charges being contested pursuant to Section 9 of the Lease, and (e) rights reserved to or vested in any government, municipality or public authority to control or regulate any Item of Equipment or the use of such Item in any manner which has no material adverse effect on the use of

such Item for the Debtor's purposes (collectively "Permitted Encumbrances").

1.5. Duration of Security Interest. The Secured Party, its successors in trust and assigns shall have and hold the Collateral forever; provided, always, however, that such security interest is granted upon the express condition that if the Debtor shall pay or cause to be paid all the indebtedness hereby secured then these presents and the estate hereby granted and conveyed shall cease and this Security Agreement shall become null and void, and in such event the Secured Party shall (upon the request of the Debtor and at no cost to the Secured Party) execute and deliver to the Debtor such instrument or instruments as may be necessary or appropriate in order to make clear upon the public records the title of the Debtor in and to the Collateral; otherwise it shall remain in full force and effect.

1.6. Excepted Rights in Collateral. There are expressly excepted and reserved from the security interest and operation of this Security Agreement the following described properties, rights, interests and privileges (hereinafter sometimes referred to as the "Excepted Rights in Collateral") and nothing herein or in any other agreement contained shall constitute an assignment of said Excepted Rights in Collateral to the Secured Party:

(a) all payments of any indemnity under Sections 6, 10.2 and 20 of the Lease and Section 8 of the Reconstruction Agreement or repayments to the Debtor or interest on such payments by reason of payments by the Debtor under Section 21.2 of the Lease which by the terms of any of such sections of the Lease are payable to the Debtor or the Trustor for its own account and all rental increases pursuant to the operation of Section 2.3 of the Lease;

(b) all rights of the Debtor and the Trustor, respectively, under the Lease to demand, collect, sue for or otherwise obtain all amounts from the Lessee due the Debtor or the Trustor on account of any such indemnities or payments or rental increases pursuant to the operation of Section 2.3 of the Lease, provided that the rights excepted and reserved by this paragraph (b) shall not be deemed to include the exercise of any remedies provided for in Section 14 of the Lease except those contained in Section 14.2(a) thereof; and

(c) any insurance proceeds payable under general public liability policies maintained by the Lessee pursuant to Section 11.1 of the Lease or maintained by Waterloo under Section 9 of the Reconstruction Agreement which by the terms of such policies or the terms of such agreements are payable directly to the Debtor or the Trustor for its own account.

SECTION 2. COVENANTS AND WARRANTIES OF THE DEBTOR.

The Debtor covenants, warrants and agrees as follows:

2.1. Debtor's Duties. The Debtor covenants and agrees well and truly to perform, abide by and be governed and restricted by each and all of the terms, provisions, restrictions, covenants and agreements set forth in the Participation Agreement, and in each and every supplement thereto or amendment thereof which may at any time or from time to time be executed and delivered by the parties thereto or their successors and assigns, to the same extent as though each and all of said terms, provisions, restrictions, covenants and agreements were fully set out herein and as though any amendment or supplement to the Participation Agreement were fully set out in an amendment or supplement to this Security Agreement. The Debtor undertakes to perform only such duties as are expressly and specifically set forth herein and in the other Operative Agreements (as defined in the Participation Agreement) and no implied obligations or covenants shall be read into this Security Agreement or any other Operative Agreements against the Debtor.

2.2. Warranty of Title. The Debtor has the right, power and authority under the Trust Agreement to grant a security interest in the Collateral to the Secured Party for the uses and purposes herein set forth; and the Debtor will warrant and defend the title to the Collateral against all claims and demands of persons claiming by, through or under the Debtor, excepting only this Security Agreement and Permitted Encumbrances. The Debtor also agrees that it will, in its individual capacity and at its own cost and expense, without regard to the provisions of Section 7 hereof, promptly take such action as may be necessary to duly discharge any liens and encumbrances on the Collateral which result from claims against the Debtor in its individual capacity and not related to the ownership of the Equipment or the administration of the Trust Estate (as defined in the Trust Agreement). Without limiting the foregoing, there is no financing statement or other filed or recorded instrument in which the Debtor is named and which the Debtor has signed, as debtor or mortgagor, now on file in any public office covering any of the Collateral excepting the financing statements or other instruments filed or to be filed in respect of and for the security interest provided for herein.

2.3. Further Assurances. The Debtor will, upon the request of and at no expense to the Secured Party, do, execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired. Without limiting the foregoing but in furtherance of the security interest herein granted in the rents and other sums due and to become due under the Lease, the Debtor covenants and agrees that it will,

pursuant to Section 16 of the Lease, notify the Lessee of the assignment hereunder and direct the Lessee to make all payments of such rents and other sums due and to become due under the Lease other than Excepted Rights in Collateral directly to the Secured Party or as the Secured Party may direct in writing.

2.4. After-Acquired Property. Any and all property described or referred to in the granting clauses hereof which is hereafter acquired shall ipso facto, and without any further conveyance, assignment or act on the part of the Debtor or the Secured Party, become and be subject to the security interest herein granted as fully and completely as though specifically described herein, but nothing in this Section 2.4 contained shall be deemed to modify or change the obligation of the Debtor under Section 2.3 hereof.

2.5. Recordation and Filing. The Debtor will cooperate fully with the Lessee and/or the Secured Party in any effort to cause this Security Agreement and all supplements hereto, the Lease and all supplements thereto, and all financing and continuation statements and similar notices required by applicable law, at all times to be kept, recorded and filed at no expense to the Secured Party in such manner and in such place as may be requested in writing by the Secured Party in order to fully preserve and protect the rights of the Secured Party hereunder.

2.6. Modifications of the Lease. The Debtor will not:

(a) declare a default or exercise the remedies of the Lessor under, or terminate, modify or accept a surrender of, or offer or agree to any termination, modification or surrender of, the Lease (except as otherwise expressly provided herein) or, except as permitted under the Lease, by affirmative act consent to the creation or existence of any security interest or other lien to secure the payment of indebtedness upon the leasehold estate created by the Lease or any part thereof;

(b) except in respect of Excepted Rights in Collateral, receive or collect any rental payment under the Lease prior to the date for payment thereof provided for by the Lease or assign, transfer or hypothecate (other than to the Secured Party hereunder) any rent payment which is then due or to accrue in the future under the Lease in respect of the Equipment; or

(c) except as otherwise provided in the Operative Agreements (as defined in the Participation Agreement) and except in respect of Excepted Rights in Collateral, sell, mortgage, transfer, assign or hypothecate (other than to the Secured Party hereunder) its interest in the Equipment or any part thereof or in any amount to be received by it from the use or disposition of the Equipment.

2.7. Power of Attorney in Respect of the Lease. The Debtor does hereby irrevocably constitute and appoint the Secured Party its true and lawful attorney with full power of substitution, for it and in its name, place and stead, to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for any and all rents, income and other sums which are assigned under Sections 1.1, 1.2 and 1.3 hereof (with full power if an Event of Default shall have occurred and be continuing hereunder to settle, adjust or compromise any claim thereunder as fully as the Debtor could itself do), and to endorse the name of the Debtor on all commercial paper given in payment or in part payment thereof, and in its discretion to file any claim or take any other action or proceedings, either in its own name or in the name of the Debtor or otherwise, which the Secured Party may deem necessary or appropriate to protect and preserve the right, title and interest of the Secured Party in and to such rents and other sums and the security intended to be afforded hereby; provided that so long as no Event of Default hereunder shall have occurred and be continuing, or an Event of Default hereunder shall have occurred and be continuing due solely to an Event of Default having occurred under Sections 14.1(e) and 14.1(f) of the Lease and the Lessee shall then have otherwise performed all of its obligations under the Lease, the Secured Party agrees that it will not enter into any waiver, agreement or amendment of any of the Operative Agreements (as defined in the Participation Agreement) in the name of the Debtor under this power of attorney without the written concurrence of the Debtor.

2.8. Notice of Default. The Debtor further covenants and agrees that it will give the Secured Party and the Note Purchaser prompt written notice of any event or condition constituting an Event of Default under the Lease if an officer in the Corporate Trust Department of the Debtor has actual knowledge of such event or condition.

SECTION 3. POSSESSION, USE AND RELEASE OF PROPERTY.

3.1. Possession of Collateral. While the Debtor is not in default hereunder, it shall be permitted to remain in full possession, enjoyment and control of the Equipment and the Hulks (as defined in the Participation Agreement) and to manage, operate and use the same and each part thereof with the rights and franchises appertaining thereto, provided, always, that the possession, enjoyment, control and use of the Equipment and the Hulks shall at all times be subject to the observance and performance of the terms of this Security Agreement. It is expressly understood that the use and possession of the Equipment by the Lessee under and subject to the Lease and the reconstruction of the Hulks by Waterloo under and subject to the Reconstruction Agreement shall not constitute a violation of this Section 3.1.

3.2. Release of Property. So long as no default referred to in Section 14 of the Lease has occurred and is continuing to the knowledge of the Secured Party, the Secured Party shall execute

a release in respect of any Item of Equipment designated by the Lessee for settlement of casualty value pursuant to Section 11 of the Lease upon receipt from the Lessee of written notice designating the Item of Equipment in respect of which the Lease will terminate and the receipt from the Lessee of all sums payable for such Item of Equipment in compliance with Section 11 of the Lease. So long as no default referred to in Section 14 of the Lease has occurred and is continuing to the knowledge of the Secured Party, the Secured Party shall execute a release of its security interest in respect of any Non-completed Hulk (as defined in Section 11 of the Reconstruction Agreement) which is to be sold pursuant to the terms of Section 11 of the Reconstruction Agreement upon receipt from the Debtor of written notice designating such Non-completed Hulk to be sold pursuant to said Section 11. The Secured Party agrees to execute such instruments as the Debtor shall reasonably request to evidence such release and consents to all appropriate filings to confirm such release of public record. Said release will be delivered to the Debtor concurrently with the delivery to the Secured Party of the proceeds of sale of such Non-completed Hulk. Sums held by the Security Trustee as a portion of the Escrow Fund may be invested, disbursed or released in the manner and to the extent provided in Section 2.2 of the Participation Agreement.

3.3. Protection of Purchaser. No purchaser in good faith of property purporting to be released hereunder shall be bound to ascertain the authority of the Secured Party to execute the release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser, in good faith, of any item or unit of the Collateral be under obligation to ascertain or inquire into the conditions upon which any such sale is hereby authorized.

SECTION 4. APPLICATION OF ASSIGNED RENTALS AND CERTAIN OTHER MONEYS RECEIVED BY THE SECURED PARTY.

4.1. Application of Rents and Other Payments. As more fully set forth in Section 1.2 hereof, the Debtor has hereby granted to the Secured Party a security interest in certain rents, issues, profits, income and other sums due and to become due under the Lease in respect of the Equipment as security for the Notes. So long as no Event of Default as defined in Section 5 hereof has occurred and is continuing:

(a) The amounts from time to time received by the Secured Party which constitute payment by the Lessee under the Lease of the installments of rental under the Lease shall be applied first, to the payment of the installments of principal and interest (and in each case first to interest and then to principal) on the Notes which have matured or will mature on or before the due date of the installments of rental which are received by the Secured Party, and then the balance, if any, of such amounts shall be paid to or

upon the order of the Debtor not later than the first business day following the receipt thereof;

(b) The amounts from time to time received by the Secured Party which constitute settlement by the Lessee of the "Casualty Value" for any Item of Equipment pursuant to Section 11 of the Lease or payments received by the Secured Party pursuant to Section 11 of the Reconstruction Agreement shall be applied by the Secured Party as follows:

(i) First, to the payment of an amount, if any, equal to the accrued and unpaid interest on that portion of the Notes to be prepaid pursuant to the following subparagraph;

(ii) Second, an amount equal to the Loan Value of the Item of Equipment or Non-completed Hulk (as defined in the Reconstruction Agreement) for which settlement is then being made shall be applied to the prepayment of the Notes so that each of the remaining installments of each Note shall be reduced in the proportion that the principal amount of the prepayment bears to the unpaid principal amount of the Notes immediately prior to the prepayment; and

(iii) Third, the balance, if any, of such amounts held by the Secured Party after making the applications provided for by the preceding subparagraphs (i) and (ii) shall be released to or upon the order of the Debtor on the date of payment of the amounts provided in the preceding clauses (i) and (ii).

For purposes of this Section 4.1(b), the "Loan Value" in respect of any Item of Equipment or any Non-completed Hulk shall be (i) in the case of any Item of Equipment, an amount equal to the product of (A) a fraction, the numerator of which is an amount equal to the Total Cost (as defined in the Participation Agreement) of such Item of Equipment for which settlement is then being made and the denominator of which is the sum of the Aggregate Total Cost (as defined in the Participation Agreement) of all Items of Equipment then subject to the Lease (including the Total Cost of such Item of Equipment for which settlement is then being made) plus the aggregate Hulk Purchase Price of all then Non-completed Hulks, times (B) the unpaid principal amount of the Notes immediately prior to the prepayment provided for in this Section 4.1(b) (after giving effect to all prior payments of installments of principal made or to be made in connection with the prepayment provided for in this Section 4.1(b)), or (ii) in the case of any Non-completed Hulk, an amount equal to the product of (A) a fraction, the numerator of which is an amount equal to the Hulk Purchase Price (as defined in the Participation Agreement) of such Non-completed Hulk for which settlement is then being made and the denominator of which is the aggregate Hulk Purchase Price for all then

Non-completed Hulks (including the Hulk Purchase Price of such Non-completed Hulk for which settlement is then being made) plus the Aggregate Total Cost of all Items of Equipment then subject to the Lease, times (B) the unpaid principal amount of the Notes immediately prior to the prepayment provided for in this Section 4.1(b) (after giving effect to all prior payments of installments of principal made or to be made in connection with the prepayment provided for in this Section 4.1(b));

(c) The amounts received by the Secured Party from time to time which constitute proceeds of casualty insurance maintained by the Lessee or Waterloo, as rebuilder, in respect of the Equipment or the Hulks, shall be held by the Secured Party as a part of the Collateral and shall be applied by the Secured Party from time to time to any one or more of the following purposes:

(i) So long as no Event of Default under the Lease has occurred and is continuing to the knowledge of the Secured Party, the proceeds of such insurance shall, if the Item of Equipment is to be repaired, be released to the Debtor to reimburse or pay the Lessee for expenditures made for such repair upon receipt by the Secured Party of a certificate of an authorized officer of the Lessee to the effect that any damage to such Item in respect of which such proceeds were paid has been fully repaired; and

(ii) If the insurance proceeds shall not have been released to the Debtor pursuant to the preceding paragraph (i) within 180 days from the receipt thereof by the Secured Party, or if within such period the Lessee shall have notified the Secured Party in writing that the Lease is to be terminated in respect of such Item in accordance with the provisions of Section 11.2 of the Lease then so long as no Event of Default hereunder has occurred and is continuing to the knowledge of the Secured Party, the insurance proceeds shall be applied by the Secured Party as follows:

(A) First, to the prepayment of the Notes, all in the manner and to the extent provided for by Section 4.1(b) hereof; and

(B) Second, the balance, if any, of such insurance proceeds held by the Secured Party after making the applications provided for by the preceding subparagraph (A) shall be released to or upon the order of the Debtor on the date of such prepayment of the Notes.

4.2. Multiple Notes. If more than one Note is outstanding at the time any such application is made, such application shall

be made on all outstanding Notes ratably in accordance with the aggregate principal amount remaining unpaid thereon.

4.3. Default. If an Event of Default referred to in Section 5 hereof has occurred and is continuing, all amounts received by the Secured Party pursuant to Section 1 hereof shall be applied in the manner provided for in Section 5 in respect of proceeds and avails of the Collateral.

SECTION 5. DEFAULTS AND OTHER PROVISIONS.

5.1. Events of Default. The term "Event of Default" for all purposes of this Security Agreement shall mean one or more of the following:

(a) Default in payment of an installment of the principal of, or interest on, any Note when and as the same shall become due and payable, whether at the due date thereof or at the date fixed for prepayment or by acceleration or otherwise, and such default shall continue unremedied for five business days;

(b) An Event of Default (as defined in the Lease) shall have occurred and be continuing under the Lease;

(c) Default on the part of the Debtor in the due observance or performance of any covenant or agreement to be observed or performed by the Debtor under this Security Agreement or the Participation Agreement, and such default shall continue unremedied for 30 days after written notice from the Secured Party to the Debtor specifying the default and demanding the same to be remedied;

(d) Any representation or warranty on the part of the Debtor made herein or in the Participation Agreement or in any report, certificate, financial or other statement furnished by the Debtor in connection with this Security Agreement, the Lease or the Participation Agreement, or the transactions contemplated therein, shall prove to have been false or misleading in any material respect when made; or

(e) Any claim, lien or charge (other than Permitted Encumbrances and liens, charges and encumbrances which the Lessee is obligated to discharge under Section 9 of the Lease) shall be asserted against or levied or imposed upon the Equipment which is prior to or on a parity with the security interest granted hereunder, and such claim, lien or charge shall not be discharged or removed (or bonded in a manner reasonably satisfactory to the Secured Party) within thirty calendar days after written notice from the Secured Party or the holder of any Note to the Debtor and the Lessee demanding the discharge or removal thereof.

5.2. Secured Party's Rights. The Debtor agrees that when any Event of Default as defined in Section 5.1 has occurred and is continuing, but subject always to Sections 5.3 and 7 hereof, the Secured Party shall have the rights, options, duties and remedies of a secured party, and the Debtor shall have the rights and duties of a debtor, under the Uniform Commercial Code of Maryland, and without limiting the foregoing, the Secured Party may exercise any one or more or all, and in any order, of the remedies hereinafter set forth, it being expressly understood that no remedy herein conferred is intended to be exclusive of any other remedy or remedies, but each and every remedy shall be cumulative and shall be in addition to every other remedy given herein or now or hereafter existing at law or in equity or by statute.

(a) The Secured Party may, and upon the direction of not less than 25% of the outstanding principal amount of the Notes, will, by notice in writing to the Debtor declare the entire unpaid balance of the Notes to be immediately due and payable, and thereupon all such unpaid balance, together with all accrued interest thereon, shall be and become immediately due and payable;

(b) Subject always to the rights of the Lessee under the Lease, provided the same is not then in default, the Secured Party personally or by agents or attorneys, shall have the right (subject to compliance with any applicable mandatory legal requirements) to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever it may be found, and may enter any of the premises of the Debtor, with or without notice, demand, process of law or legal procedure, if this can be done without breach of the peace, and search for, take possession of, remove, keep and store the same, or use and operate or lease the same until sold;

(c) Subject always to the rights of the Lessee under the Lease, provided the same is not in default, the Secured Party may, if at the time such action may be lawful and always subject to compliance with any mandatory legal requirements, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and having first given notice of such sale by registered mail to the Debtor and the Lessee once at least ten days prior to the date of such sale, and any other notice which may be required by law, sell and dispose of the Collateral, or any part thereof, at public auction to the highest bidder, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as the Secured Party may determine, and at any place (whether or not it be the

location of the Collateral or any part thereof) designated in the notice above referred to; provided, however, that any such sale shall be held in a commercially reasonable manner. Any such sale or sales may be adjourned from time to time by announcement at the time and place appointed for such sale or sales, or for any such adjourned sale or sales, without further published notice, and the Secured Party or the holder or holders of the Notes, or of any interest therein, or the Debtor may bid and become the purchaser at any such sale;

(d) Subject always to the rights of the Lessee under the Lease, provided the same is not then in default, the Secured Party may proceed to protect and enforce this Security Agreement and the Notes by suit or suits or proceedings in equity, at law or in bankruptcy, and whether for the specific performance of any covenant or agreement herein contained or in execution or aid of any power herein granted; or for foreclosure hereunder, or for the appointment of a receiver or receivers for the Collateral or any part thereof, or subject to the provisions of Section 7 hereof, for the recovery of judgment for the indebtedness hereby secured or for the enforcement of any other proper, legal or equitable remedy available under applicable law; and

(e) Subject always to the rights of the Lessee under the Lease, provided the same is not then in default, the Secured Party may proceed to exercise all rights, privileges and remedies of the Debtor under the Lease and may exercise all such rights and remedies either in the name of the Secured Party or in the name of the Debtor for the use and benefit of the Secured Party.

5.3. Certain Rights of the Debtor on the Occurrence of an Event of Default Under the Lease. If an Event of Default under the Lease (other than an Event of Default resulting from an event referred to in Section 14.1(e) or (f) thereof) or under Section 5.1(a) hereof shall have occurred and be continuing, the Secured Party shall give the Debtor not less than ten days' prior written notice of the date (the "Enforcement Date") on which the Secured Party will exercise any remedy or remedies pursuant to Section 5.2 hereof. If an Event of Default under the Lease (other than an Event of Default resulting from an event referred to in Section 14.1(e) or (f) thereof), and any resulting default under Section 5.1 hereof, shall have occurred and be continuing, the Debtor shall have the following rights hereunder:

(a) Right to Cure. In the event of the occurrence of an Event of Default pursuant to Section 14.1(a) or 14.1(c) of the Lease (or both) resulting from the failure of the Lessee to pay any sums due thereunder, or to observe or perform any other of its covenants, conditions and agreements contained in any of the Operative

Agreements, the Debtor may, prior to the Enforcement Date, in the case of an Event of Default pursuant to said Section 14.1(a) (and a resulting default hereunder), pay to the Secured Party an amount equal to any principal and interest (including interest, if any, on overdue payments of principal and interest) then due and payable on the Notes, and in the case of an Event of Default pursuant to said Section 14.1(c) pay any sums necessary and effective to accomplish the observance or performance of the covenant, condition or agreement which the Lessee has failed to observe or perform, such sums to be paid to the party entitled to receive the same (including interest, if any, thereon), or otherwise provide for the performance of such undertaking of the Lessee and any such payment or performance by the Debtor under this Section 5.3(a) shall be deemed to cure any such Event of Default under the Lease and any Event of Default hereunder resulting therefrom (including, without limitation, an Event of Default under Section 5.1(a) hereof) which would otherwise have arisen on account of such non-payment, non-observance or non-performance by the Lessee under the Lease; provided, however, that the Debtor may not exercise such right in respect of more than four consecutive Fixed Rental (as defined in the Lease) payment defaults or in any event more than a total of eight times throughout the term of the Lease in respect of Fixed Rental payment defaults.

The Debtor shall not, by exercising the right to cure any such Event of Default, obtain any lien, charge or encumbrance of any kind on any of the Collateral for or on account of costs or expenses incurred in connection with the exercise of such right nor shall any claims of the Debtor against the Lessee or any other party for the repayment of such costs or expenses impair the prior right and security interest of the Secured Party in and to the Collateral. Upon such payment by the Debtor of the amount of principal and interest then due and payable on the Notes, the Debtor shall be subrogated to the rights of the Secured Party in respect of any Fixed Rental which was overdue at the time of such payment and interest payable by the Lessee on account of its being overdue, and therefore, if no other Event of Default shall have occurred and be continuing and if all principal and interest payments due on the Notes have been paid at the time of receipt by the Secured Party of such Fixed Rental and such interest, the Debtor shall be entitled to receive such Fixed Rental and such interest upon receipt thereof by the Secured Party; provided that (1) in the event the principal and interest on the Notes shall have become due and payable pursuant to Section 5.2(a) hereof, such subrogation shall, until principal of and interest on all Notes shall have been paid in full, be subordinate to the rights of the Secured Party in respect of such payment of Fixed Rental and such interest prior to receipt by the

Debtor of any amount pursuant to such subrogation, and (ii) the Debtor shall not be entitled to seek to recover any such payment (or any payment in lieu thereof) except pursuant to the foregoing right of subrogation.

The exercise by the Debtor of its rights set forth herein in accordance with the provisions hereof shall cure any Event of Default cured by the exercise of such rights nunc pro tunc.

(b) Option to Prepay Notes. In addition to the rights of the Debtor granted in the Notes and whether or not the Debtor shall then have the right to cure an Event of Default under the Lease pursuant to Section 5.3(a) above, the Debtor may, if an Event of Default has occurred and is continuing which is the result of an Event of Default under the Lease, at its option prepay the Notes, without premium or penalty, by payment of the entire unpaid principal amount thereof, together with accrued interest thereon to the date of prepayment.

5.4. Acceleration Clause. In case of any sale of the Collateral, or of any part thereof, pursuant to any judgment or decree of any court or otherwise in connection with the enforcement of any of the terms of this Security Agreement, the principal of the Notes, if not previously due, and the interest accrued thereon, shall at once become and be immediately due and payable; also in the case of any such sale, the purchaser or purchasers, for the purpose of making settlement for or payment of the purchase price, shall be entitled to turn in and use the Notes and any claims for interest matured and unpaid thereon, in order that there may be credited as paid on the purchase price the sum apportionable and applicable to the Notes including principal and interest thereof out of the net proceeds of such sale after allowing for the proportion of the total purchase price required to be paid in cash.

5.5. Waiver by Debtor. To the extent permitted by law, the Debtor covenants that it will not at any time insist upon or plead, or in any manner whatever claim or take any benefit or advantage of, any stay or extension law now or at any time hereafter in force, nor claim, take, nor insist upon any benefit or advantage of or from any law now or hereafter in force providing for the valuation or appraisal of the Collateral or any part thereof prior to any sale or sales thereof to be made pursuant to any provision herein contained, or pursuant to the decree, judgment or order of any court of competent jurisdiction; nor, after such sale or sales, claim or exercise any right under any statute now or hereafter made or enacted by any state or otherwise to redeem the property so sold or any part thereof, and, to the full extent legally permitted, hereby expressly waives for itself and on behalf of each and every person, except decree or judgment creditors of the Debtor acquiring any interest in or title to the Collateral or any part thereof subsequent to the date of this Security

Agreement, all benefit and advantage of any such law or laws, and covenants that it will not invoke or utilize any such law or laws or otherwise hinder, delay or impede the execution of any power herein granted and delegated to the Secured Party, but will suffer and permit the execution of every such power as though no such power, law or laws had been made or enacted.

5.6. Effect of Sale. Any sale, whether under any power of sale hereby given or by virtue of judicial proceedings, shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Debtor in and to the property sold, and shall be a perpetual bar, both at law and in equity, against the Debtor, its successors and assigns, and against any and all persons claiming the property sold or any part thereof under, by or through the Debtor, its successors or assigns (subject, however, to the then existing rights, if any, of the Lessee under the Lease); provided however, that nothing in this Agreement shall operate to deprive the Debtor of title to the Collateral prior to any sale or sales thereof made pursuant to any provision herein contained, or pursuant to the decree, judgment or order of any court of competent jurisdiction.

5.7. Application of Proceeds. The proceeds and/or avails of the Collateral, or any part thereof, and the proceeds and the avails of any remedy hereunder shall be as soon as practicable after the receipt thereof paid to and applied as follows:

(a) First, to the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including legal expenses and attorneys' fees, incurred or made hereunder by the Secured Party, or the holder or holders of the Notes and of all taxes, assessments or liens superior to the lien of these presents, except any taxes, assessments or other superior lien subject to which said sale may have been made;

(b) Second, (i) in the case of any such proceeds and/or avails which arise as the result of the sale of any Item of Rebuilt Equipment which has been settled for by the application of sums advanced by the Note Purchaser both on a Hulk Closing Date and an Equipment Closing Date under the Participation Agreement, the full balance of such proceeds and/or avails, and (ii) in the case of any such proceeds and/or avails which arise as the result of the sale of any Item of Rebuilt Equipment which has been settled for by application of sums advanced by the Note Purchaser only on a Hulk Closing Date for the Hulk Purchase Price thereof and for which settlement of the Reconstruction Cost thereof was completed solely by application of additional sums advanced by the Trustor, an amount or portion of such proceeds and/or avails equal to but not exceeding the Hulk Purchase Price paid by the Debtor for the Hulk which was rebuilt to produce

such Item of Equipment, and (iii) in all other cases, including the application of such proceeds and/or avails which arise as the result of the sale of any Item of New Equipment, to the payment to the holder or holders of the Notes of the amount then owing or unpaid on the Notes for principal, interest and premium, if any; and in case such proceeds shall be insufficient to pay in full the whole amount so due, owing or unpaid upon the Notes, then ratably according to the aggregate of such principal and the accrued and unpaid interest and premium, if any, with application on each Note to be made, first, to the unpaid interest thereon, second, to unpaid premium, if any, thereon, and third, to unpaid principal thereof; such application to be made upon presentation of the several Notes, and the notation thereon of the payment, if partially paid, or the surrender and cancellation thereof, if fully paid; and

(c) Third, to the payment of the surplus (including, without limitation, proceeds and/or avails for Items of Rebuilt Equipment referred to in paragraph (b)(ii) above in excess of the Hulk Purchase Price thereof), if any, to the Debtor, its successors and assigns, or to whomsoever may be lawfully entitled to receive the same.

5.8. Discontinuance of Remedies. In case the Secured Party shall have proceeded to enforce any right under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, then and in every such case the Debtor, the Secured Party and the holder or holders of the Notes shall be restored to their former positions and rights hereunder with respect to the property subject to the security interest created under this Security Agreement.

5.9. Cumulative Remedies. No delay or omission of the Secured Party or of the holder of any Note to exercise any right or power arising from any default or Event of Default under this Agreement shall exhaust or impair any such right or power or prevent its exercise during the continuance thereof. No waiver by the Secured Party, or the holder of any Note, of any such default or Event of Default, whether such waiver be full or partial, shall extend to or be taken to affect any subsequent default, or to impair the rights resulting therefrom except as may be otherwise provided herein. No remedy hereunder is intended to be exclusive of any other remedy but each and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing; nor shall the giving, taking or enforcement of any other or additional security, collateral or guaranty for the payment of the indebtedness secured under this Security Agreement operate to prejudice, waive or affect the security of this Security Agreement or any rights, powers or remedies hereunder, nor shall the Secured Party or holder of any of the Notes be required to first look to, enforce or exhaust such other or additional security, collateral or guaranty.

SECTION 6. THE SECURED PARTY.

6.1. Certain Duties and Responsibilities of Secured Party. (a) Except during the continuance of an Event of Default:

(1) the Secured Party undertakes to perform such duties and only such duties as are specifically set forth in this Security Agreement, and no implied covenants or obligations shall be read into this Security Agreement against the Secured Party; and

(2) in the absence of bad faith on its part, the Secured Party may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Secured Party and conforming to the requirements of this Security Agreement or the Lease; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Secured Party, the Secured Party shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Security Agreement.

(b) In case an Event of Default has occurred and is continuing, the Secured Party shall exercise such of the rights and powers vested in it by this Security Agreement for the benefit of the holders of the Notes, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Security Agreement shall be construed to relieve the Secured Party from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(2) the Secured Party shall not be liable for any error of judgment made in good faith by an officer of the Secured Party unless it shall be proved that the Secured Party was negligent in ascertaining the pertinent facts; and

(3) the Secured Party shall not be liable to the holder of any Note with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of two-thirds of the principal amount of the Notes outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Secured Party, or exercising any trust or power conferred upon the Secured Party under this Security Agreement.

(d) No provision of this Security Agreement shall require the Secured Party to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(e) Whether or not therein expressly so provided, every provision of this Security Agreement relating to the conduct or affecting the liability of or affording protection to the Secured Party shall be subject to the provisions of this Section.

6.2. Certain Limitations on Secured Party's Rights to Compensation and Indemnification. The Secured Party agrees that it shall have no right against the holders of any Note for the payment of compensation for its services hereunder or any expenses, liabilities or disbursements incurred in connection with the exercise and performance of its powers and duties hereunder but, on the contrary, shall look solely to the Debtor under Section 2.6 of the Participation Agreement and to the Lessee under the Lease for such payment and that it shall have no lien on nor security interest in the Collateral as security for such compensation, expenses, reasonable counsel fees, if any, and disbursements except to the extent provided for in Section 5.7(a) hereof.

6.3. Certain Rights of Secured Party. (a) The Secured Party shall not be responsible for any recitals herein or in the Participation Agreement other than its own or for insuring the Equipment, or for paying or discharging any tax, assessment, governmental charge or lien affecting the Collateral, except any such tax, assessment, lien or charge arising through such Secured Party, or for the recording, filing or refiling of this Security Agreement, or of any supplemental or further mortgage or trust, nor shall the Secured Party be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements contained herein or in the Participation Agreement, and, except in the case of a default in the payment of the principal of, or interest or premium, if any, on any Note or a default of which the Secured Party has actual knowledge, the Secured Party shall be deemed to have knowledge of any default in the performance or observance of any such covenants, conditions or agreements only upon receipt of written notice thereof from one of the holders of the Notes or any other party to the Participation Agreement. The Secured Party shall promptly notify the Debtor and all holders of the Notes of any default of which the Secured Party has actual knowledge. Upon receipt by the Secured Party of such written notice from a holder of a Note, the Secured Party shall promptly notify the Debtor and all other holders of the Notes of such notice and the default referred to therein by prepaid registered mail addressed to them as provided in Section 8.10 hereof.

(b) The Secured Party makes no representation or warranty as to the value, title, condition or fitness for use of, or otherwise

with respect to, any Equipment or Item of Equipment or any substitute therefor.

(c) The Secured Party may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(d) Any request, direction or authorization by the Debtor or the Lessee shall be sufficiently evidenced by a request, direction or authorization in writing, delivered to the Secured Party, and signed in the name of the Debtor or the Lessee, as the case may be, by its Chairman of the Board, President, any Vice President, Treasurer or Secretary, and any resolution of the Board of Directors of the Debtor or the Lessee shall be sufficiently evidenced by a copy of such resolution certified by its Secretary or an Assistant Secretary to have been duly adopted and to be in full force and effect on the date of such certification, and delivered to the Secured Party.

(e) Whenever in the administration of the trust herein provided for, the Secured Party shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate purporting to be signed by the Chairman of the Board, the President, any Vice President, the Treasurer or the Secretary of the Debtor or the Lessee, as the case may be, and delivered to the Secured Party, and such certificate shall fully warrant to the Secured Party or any other person for any action taken, suffered or omitted on the faith thereof, but in its discretion the Secured Party may accept, in lieu thereof, other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

(f) The Secured Party may consult with counsel, appraisers, engineers, accountants and other skilled persons to be reasonably selected by the Secured Party, and the written advice of any thereof shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(g) Subject to the notice requirements of Section 6.3(a) hereof, the Secured Party shall be under no obligation to take any action to protect, preserve or enforce any rights or interests in the Collateral or to take any action towards the execution or enforcement of the trusts hereunder or otherwise hereunder, whether on its own motion or on the request of any other person, which in the opinion of the Secured Party may involve loss, liability or expense, unless the Debtor or one or more holders of the Notes outstanding shall offer and furnish reasonable security or indemnity against loss, liability and expense to the Secured Party.

(h) The Secured Party shall not be liable to the holder of any Note for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Security Agreement.

(i) The Secured Party shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, unless requested in writing to do so by the holders of not less than a majority in principal amount of the Notes then outstanding.

(j) The Secured Party may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys.

(k) The provisions of paragraphs (c) to (j) inclusive of this Section 6.3 shall be subject to the provisions of Section 6.1 hereof.

6.4. Status of Moneys Received. All moneys received by the Secured Party shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated in any manner from any other moneys, except to the extent required by law or Section 2.2(e) of the Participation Agreement, and may be deposited by the Secured Party under such general conditions as may be prescribed by law in the Secured Party's general banking department, and the Secured Party shall be under no liability for interest on any moneys received by it hereunder. The Secured Party and any affiliated corporation may become the owner of any Note secured hereby and be interested in any financial transaction with the Debtor or any affiliated corporation or the Lessee or any affiliated corporation, or the Secured Party may act as depository or otherwise in respect to other securities of the Debtor or any affiliated corporation or the Lessee or any affiliated corporation, all with the same rights which it would have if not the Secured Party. The Secured Party agrees that, whenever it shall be required to disburse moneys to the Note Purchaser or the Debtor under the provisions hereof, it shall do so by wire transfer of immediately available funds to a designated bank or trust company located in the continental United States whenever such method of payment is provided for in Schedule 2 to the Participation Agreement or is requested in writing by the Note Purchaser or the Debtor.

6.5. Resignation of Secured Party. The Secured Party may resign and be discharged of the trusts hereby created by mailing notice specifying the date when such resignation shall take effect to the Debtor and to the holders of the Notes at their addresses set forth in the Register. Such resignation shall take effect on the date specified in such notice (being not less than thirty days after the mailing of such notice) unless previously a successor secured party shall have been appointed as hereinafter

provided, in which event such resignation shall take effect immediately upon the appointment of such successor.

6.6. Removal of Secured Party. The Secured Party may be removed and/or a successor secured party may be appointed at any time by an instrument or concurrent instruments in writing signed and acknowledged by the holders of a majority in principal amount of the Notes and delivered to the Secured Party and to the Debtor and, in the case of the appointment of a successor secured party, to such successor secured party.

6.7. Successor Secured Party. Each secured party appointed in succession of the Secured Party named in this Security Agreement, or its successor in the trust, shall be a trust company or banking corporation organized under the laws of the United States or a state thereof, having a capital and surplus aggregating at least \$50,000,000, if there be such a trust company or banking corporation qualified, able and willing to accept the trust upon reasonable or customary terms.

6.8. Appointment of Successor Secured Party. If the Secured Party shall have given notice of resignation to the Debtor pursuant to Section 6.5 hereof or if notice of removal shall have been given to the Secured Party and the Debtor pursuant to Section 6.6 hereof, which notice does not appoint a successor secured party, a successor secured party may be appointed by the Debtor, or, if such successor secured party shall not have been so appointed or shall not have accepted such appointment within fifteen calendar days after the giving of such notice of resignation or the giving of any such notice of removal, as the case may be, a successor secured party may be appointed by the Debtor, the holder of any outstanding Note or, upon application of the retiring secured party, by any court of competent jurisdiction.

6.9. Merger or Consolidation of Secured Party. Any company into which the Secured Party, or any successor to it in the trust created by this Security Agreement, may be merged or converted or with which it or any successor to it may be consolidated or any company resulting from any merger or consolidation to which the Secured Party or any successor to it shall be a party (provided such company shall be a corporation organized under the laws of the United States of America or of a state thereof, having a capital and surplus of at least \$50,000,000), shall be the successor to the Secured Party under this Security Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto. The Debtor covenants that in case of any such merger, consolidation or conversion it will, upon the request of the merged, consolidated or converted corporation, execute, acknowledge and cause to be recorded or filed suitable instruments in writing to confirm the estates, rights and interests of such corporation as secured party under this Security Agreement.

6.10. Conveyance Upon Request of Successor Secured Party. Should any deed, conveyance or instrument in writing from

the Debtor be required by any successor secured party for more fully and certainly vesting in and confirming to such new secured party such estates, rights, powers and duties, then upon request any and all such deeds, conveyances and instruments in writing shall be made, executed, acknowledged and delivered, and shall be caused to be recorded and/or filed, by the Debtor.

6.11. Acceptance of Appointment by Successor Secured Party. Any new secured party appointed pursuant to any of the provisions hereof shall execute, acknowledge and deliver to the Debtor and to the Note Purchaser an instrument accepting such appointment, and thereupon such new secured party, without any further act, deed or conveyance, shall become vested with all the estates, properties, rights, powers and trusts of its predecessor in the rights hereunder with like effect as if originally named as secured party herein; but nevertheless, upon the written request of the Debtor or the Note Purchaser or of the successor secured party, the secured party ceasing to act shall execute and deliver an instrument transferring to such successor secured party, upon the trusts herein expressed, all the estates, properties, rights, powers and trusts of the secured party so ceasing to act, and shall duly assign, transfer and deliver any of the property and moneys held by such secured party to the successor secured party so appointed in its or his place.

SECTION 7. LIMITATIONS OF LIABILITY.

It is expressly understood and agreed by and between the Debtor, the Trustor, the Secured Party and their respective successors and assigns that this Security Agreement is executed by The Connecticut Bank and Trust Company, not individually or personally but solely as Trustee under the Trust Agreement in the exercise of the power and authority conferred and vested in it as such Trustee, that, except as expressly provided in Section 2.2 hereof, each and all of the representations, undertakings and agreements herein made on the part of the Debtor are each and every one of them made and intended not as personal representations, undertakings and agreements by The Connecticut Bank and Trust Company or the Trustor, or for the purpose or with the intention of binding The Connecticut Bank and Trust Company or the Trustor personally, but are made and intended for the purpose of binding only the Trust Estate as defined in the Trust Agreement, that this Security Agreement is executed and delivered by The Connecticut Bank and Trust Company solely in the exercise of the powers expressly conferred upon The Connecticut Bank and Trust Company as trustee under the Trust Agreement, that actions to be taken by the Debtor pursuant to its obligations hereunder may, in certain instances, be taken by the Debtor only upon specific authority of the Trustor, that nothing herein contained shall be construed as creating any liability on The Connecticut Bank and Trust Company or the Trustor, individually or personally, or any incorporator or any past, present or future subscriber to the capital stock of, or stockholder, officer or director of, The

Connecticut Bank and Trust Company or the Trustor, to perform any covenant either express or implied contained herein, all such liability, if any, being expressly waived by the Secured Party and by any person claiming by, through or under the Secured Party, and that so far as The Connecticut Bank and Trust Company or the Trustor, individually or personally are concerned, the Secured Party and any person claiming by, through or under the Secured Party shall look solely to the Collateral for the performance of any obligation under any of the instruments referred to herein; provided that nothing in this Section 7 shall be construed to limit in scope or substance those representations and warranties of The Connecticut Bank and Trust Company made expressly in its individual capacity set forth in the Participation Agreement. Any obligation of the Debtor hereunder may be performed by the Trustor, and any such performance shall not be construed as revocation of the trust created by the Trust Agreement. Nothing contained in this Security Agreement shall restrict the operation of the provisions of the Trust Agreement with respect to its revocation or the resignation or removal of the Trustee thereunder.

SECTION 8. MISCELLANEOUS.

8.1. Registration and Execution. The Notes shall be registered as to principal and interest and shall be signed on behalf of the Debtor by its President or any Vice President or any other officer of the Debtor who, at the date of the actual execution thereof, shall be a proper officer to execute the same.

8.2. Payment of the Notes. (a) The principal of, and premium, if any, and interest on the Notes shall be payable by wire transfer of immediately available funds, in the case of the original Note Purchaser, as provided in Section 6.4 or as such Note Purchaser shall otherwise designate, and in the case of all other holders of the Notes, to such bank or trust company in the continental United States for the account of such holder as the holder shall designate to the Security Trustee from time to time in writing, and if no such designation is in effect, by check, duly mailed, by first class mail, postage prepaid, or delivered to such holder at its address appearing on the Register as defined in Section 8.3. All payments so made shall be valid and effective to satisfy and discharge the liability upon such Note to the extent of the sums so paid. Each holder (or the person for whom such holder is a nominee) by its acceptance of any Note agrees that, before selling, transferring or otherwise disposing of such Note, it will present such Note to the Debtor for transfer and notation as provided in Sections 8.4 and 8.5.

(b) All amounts constituting payment of the installments of rental under the Lease or Casualty Value received by the Secured Party and applied on the Notes pursuant to Section 4 hereof shall be valid and effective to satisfy and discharge the liability upon such Notes to the extent of the amounts so received and applied.

8.3. The Register. The Debtor will keep at its principal office a register for the registration and transfer of

Notes (herein called the "Register"). The names and addresses of the holders of the Notes, the transfers of the Notes and the names and addresses of the transferees of all Notes shall be registered in the Register, with copies to be provided by the Debtor to the Secured Party.

8.4. Transfers and Exchanges of Notes; Lost or Mutilated Notes.

(a) The holder of any Note may transfer such Note upon the surrender thereof at the principal corporate office of the Debtor. Thereupon, the Debtor shall execute in the name of the transferee a new Note or Notes in denominations not less than \$50,000 (except as may be necessary to reflect any principal amount not evenly divisible by \$50,000) in aggregate principal amount equal to the unpaid principal amount of the Note so surrendered and deliver such new Note or Notes as instructed by such holder to such transferee and provide written notice thereof to the Security Trustee.

(b) The holder of any Note or Notes may surrender such Note or Notes at the principal office of the Debtor, accompanied by a written request for a new Note or Notes in the same aggregate principal amount as the then unpaid principal amount of the Note or Notes so surrendered and in denominations of \$50,000 (except as may be necessary to reflect any principal amount not evenly divisible by \$50,000) or such amount in excess thereof as may be specified in such request. Thereupon, the Debtor shall execute in the name of such holder a new Note or Notes in the denomination or denominations so requested and in the aggregate principal amount equal to the aggregate unpaid principal amount of the Note or Notes so surrendered and deliver such new Note or Notes to such holder, and shall advise the Secured Party thereof.

(c) All Notes presented or surrendered for exchange or transfer shall be accompanied (if so required by the Debtor) by a written instrument or instruments of assignment or transfer, in form satisfactory to the Debtor, duly executed by the registered holder or by its attorney duly authorized in writing. The Debtor shall not be required to make a transfer or an exchange of any Note for a period of ten days preceding any installment payment date with respect thereto.

(d) No notarial act shall be necessary for the transfer or exchange of any Note pursuant to this Section 8.4, and the holder of any Note issued as provided in this Section 8.4 shall be entitled to any and all rights and privileges granted under this Security Agreement to a holder of a Note.

(e) In case any Note shall become mutilated or be destroyed, lost or stolen, the Debtor, upon the written request of the holder thereof, shall execute and deliver a new Note in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. The applicant for a substituted Note shall furnish to the Debtor and the Secured Party such security or indemnity as may be required by the Debtor and the Secured Party to save them harmless from all risks, and the applicant shall also furnish to the Debtor such mutilated Note or evidence to its satisfaction of the destruction, loss or theft of the applicant's Note and of the ownership thereof. In case any Note which has matured or will mature within three months shall become mutilated or be destroyed, lost or stolen, the Debtor may, instead of issuing a substituted Note, pay or authorize the payment of the same in accordance with the provisions thereof (without surrender thereof except in the case of a mutilated Note), if the applicant for such payment shall furnish to the Debtor such security or indemnity as the Debtor may require to save it harmless, and shall furnish the mutilated Note or evidence to the satisfaction of the Debtor of the destruction, loss or theft of such Note and the ownership thereof. If the Note Purchaser, or its nominee, is the owner of any such lost, stolen or destroyed Note, then the affidavit of the president, vice president, treasurer or assistant treasurer of such Note Purchaser setting forth the fact of loss, theft or destruction and of its ownership of the Note at the time of such loss, theft or destruction shall be accepted as satisfactory evidence thereof and no indemnity shall be required as a condition to execution and delivery of a new Note other than the written agreement of such Note Purchaser to indemnify the Debtor for any claims or action against it (and for its attorney's fees) resulting from the issuance of such new Note or the reappearance of the old Note. The Debtor shall advise the Secured Party when any new Note is issued pursuant to this Section 8.4(e) as to the details relating to such issuance.

8.5. The New Notes.

(a) Each new Note (herein, in this Section 8.5, called a "New Note") issued pursuant to Section 8.4(a), (b) or (e) in exchange for or in substitution or in lieu of an outstanding Note (herein, in this Section 8.5, called an "Old Note") shall be dated the date of such Old Note. The Debtor shall mark, at the direction of the Secured Party and on the basis of information provided by the Secured Party, on each New Note (i) the dates to which principal and interest have been paid on such Old Note, (ii) all payments and prepayments of principal previously made on such Old Note which are allocable to such New Note, and (iii) the amount of each installment payment payable on such New Note. Each installment payment payable on such New Note on any date shall bear the same proportion to the installment payment payable on such Old Note on such

date as the original principal amount of such New Note bears to the original aggregate principal amount of such Old Note. Interest shall be deemed to have been paid on such New Note to the date on which interest shall have been paid on such Old Note, and all payments and prepayments of principal marked on such New Note, as provided in clause (ii) above, shall be deemed to have been made thereon.

(b) Upon the issuance of a New Note pursuant to Section 8.4(a), (b) or (e), the Debtor may require the payment of a sum to reimburse it for, or to provide it with funds for, the payment of any tax or other governmental charge or any other charges and expenses connected therewith which are paid or payable by the Debtor.

(c) All New Notes issued pursuant to Section 8.4(a), (b) or (e) in exchange for or in substitution or in lieu of Old Notes shall be valid obligations of the Debtor evidencing the same debt as the Old Notes and shall be entitled to the benefits and security of this Security Agreement to the same extent as the Old Notes.

(d) Upon the issuance of any Note pursuant to this Security Agreement, the Debtor may submit to the Trustor a request that the Trustor prepare and deliver to the Debtor an amortization schedule with respect to such Note setting forth the amount of the installment payments to be made on such Note after the date of issuance thereof and the unpaid principal balance of such Note after each such installment payment and upon receipt thereof by the Debtor from the Trustor, the Debtor will deliver said schedule to the Secured Party. The Secured Party shall deliver, or send by first-class mail, postage prepaid, one copy of the applicable schedule to the holder of such Note at its address set forth in the Register.

8.6. Cancellation of Notes. All Notes surrendered for the purpose of payment, redemption, transfer or exchange shall be delivered to the Debtor for cancellation or, if surrendered to the Debtor, shall be cancelled by it, and no Notes shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Security Agreement.

8.7. Registered Owner. The person in whose name any Note shall be registered shall be deemed and treated as the owner thereof for all purposes of this Security Agreement and the Debtor shall not be affected by any notice to the contrary. Payment of or on account of the principal of, premium, if any, and interest on such Note shall be made only to or upon the order in writing of such registered owner. For the purpose of any request, direction or consent hereunder, the Debtor may deem and treat the registered owner of any Note as the owner thereof without production of such Note.

8.8. Successors and Assigns. Whenever any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all the covenants, promises and agreements in this Security Agreement contained by or on behalf of the Debtor or by or on behalf of the Secured Party, shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

8.9. Partial Invalidity. The unenforceability or invalidity of any provision or provisions of this Security Agreement shall not render any other provision herein contained unenforceable or invalid, provided that nothing contained in this Section 8.9 shall be construed to be in derogation of any rights or immunities of the Debtor in its individual capacity under Section 7 hereof, or to amend or modify any limitations or restrictions on the Secured Party or the holder of any Note or their respective successors or assigns under said Section 7.

8.10. Communications. All communications provided for herein shall be in writing and shall be deemed to have been given when delivered personally or otherwise actually received at the following addresses:

If to the Debtor: The Connecticut Bank and Trust
 Company
 One Constitution Plaza
 Hartford, Connecticut 06115
 Attention: Corporate Trust
 Department

(With a copy of such notice,
report or document to the Trustor)

If to the Trustor: Valley Bank Leasing, Inc.
 234 North Central Avenue
 Suite 522
 Phoenix, Arizona 85001
 Attention: Lease Administrator

If to the Secured
Party: Mercantile-Safe Deposit and Trust
 Company
 Two Hopkins Plaza
 P. O. Box 2258
 Baltimore, Maryland 21203
 Attention: Corporate Trust Department

If to the
holder of Notes: At its address for notices set
 forth in the Register

or to any such party at such other address as such party may designate by notice duly given in accordance with this Section to the other parties.

8.11. Supplemental Security Agreements; Waivers.

(a) Supplemental Security Agreements Without Noteholders' Consent. The Debtor and the Secured Party from time to time and at any time, subject to the restrictions in this Security Agreement and the Trust Agreement contained, may enter into an agreement or agreements supplemental hereto and which thereafter shall form a part hereof for any one or more of the following purposes:

(i) to add to the covenants and agreements to be observed by, and to surrender any right or power reserved to or conferred upon the Debtor;

(ii) to subject to the security interest of this Security Agreement additional property hereafter acquired by the Debtor and intended to be subjected to the security interest of this Security Agreement, and to correct and amplify the description of any property subject to the security interest of this Security Agreement;

(iii) to permit the qualification of this Security Agreement under the Trust Indenture Act of 1939, as amended, or any similar Federal statute hereafter in effect, except that nothing herein contained shall permit or authorize the inclusion of the provisions referred to in Section 316(a)(2) of said Trust Indenture Act of 1939 or any corresponding provision in any similar Federal statute hereafter in effect; or

(iv) for any other purpose not inconsistent with the terms of this Security Agreement, or to cure any ambiguity or cure, correct or supplement any defect or inconsistent provisions of this Security Agreement or any supplement;

and the Debtor and the Secured Party covenant to perform all requirements of any such supplemental agreement. No restriction or obligation imposed upon the Debtor or the Secured Party may, except as otherwise provided in this Security Agreement, be waived or modified by such supplemental agreements, or otherwise.

(b) Waivers and Consents by Noteholders; Supplemental Security Agreements with Noteholders' Consent. Upon the waiver or consent of the holders of at least 66-2/3% in aggregate principal amount of the Notes (x) the Debtor may, subject to the provisions of the Trust Agreement, take any action prohibited, or omit the taking of any action required, by any of the provisions of this Security Agreement or any agreement supplemental hereto, or (y) the Debtor and the Secured Party may enter into an agreement or agreements supplemental hereto for the purpose of

adding, changing or eliminating any provisions of this Security Agreement or of any agreement supplemental hereto or modifying in any manner the rights and obligations of the holders of the Notes and the Debtor; provided, that no such waiver or supplemental agreement shall (i) impair or affect the right of any holder to receive payments or prepayments of the principal of and payments of the interest on its Note, as therein and herein provided, without the consent of such holder, (ii) permit the creation of any lien or security interest with respect to any of the Collateral, without the consent of the holders of all the Notes at the time outstanding, (iii) effect the deprivation of the holder of any Note of the benefit of the security interest of this Security Agreement upon all or any part of the Collateral without the consent of such holder, (iv) reduce the aforesaid percentage of the aggregate principal amount of Notes, the holders of which are required to consent to any such waiver or supplemental agreement pursuant to this Section, without the consent of the holders of all of the Notes at the time outstanding, or (v) modify the rights, duties or immunities of the Secured Party, without the consent of the Secured Party and of the holders of all of the Notes at the time outstanding.

(c) Notice of Supplemental Security Agreements.

Promptly after the execution by the Debtor and the Secured Party of any supplemental agreement pursuant to the provisions of paragraph (a) or (b) of this Section, the Secured Party shall give written notice, setting forth in general terms the substance of such supplemental agreement, together with a conformed copy thereof, mailed, first-class, postage prepaid, to each holder of the Notes. Any failure of the Secured Party to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental agreement.

(d) Opinion of Counsel Conclusive as to Supplemental Security Agreements. The Secured Party is hereby authorized to join with the Debtor in the execution of any such supplemental agreement authorized or permitted by the terms of this Security Agreement and to make the further agreements and stipulations which may be therein contained, and the Secured Party may receive an opinion of counsel as conclusive evidence that any supplemental agreement executed pursuant to the provisions of this Section 8.11 complies with the requirements of this Section 8.11.

8.12. Amendments. This Security Agreement may, from time to time and at any time, be amended or supplemented by an instrument or instruments in writing executed by the parties hereto, but only as provided hereinabove.

8.13. Release. The Secured Party shall release this Security Agreement and the security interest granted hereby by proper instrument or instruments upon presentation of satisfactory evidence that all indebtedness secured hereby has been fully paid or discharged.

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STATE OF CONNECTICUT)
) SS
COUNTY OF HARTFORD)

On this 22nd day of June, 1981, before me personally appeared DONALD E. SMITH, to me personally known, who being by me duly sworn, says that he is an authorized officer of THE CONNECTICUT BANK AND TRUST COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Carol Lee Shattuck
Notary Public

(SEAL)

My commission expires:

CAROL LEE SHATTUCK
NOTARY PUBLIC
MY COMMISSION EXPIRES MARCH 31, 1985

STATE OF MARYLAND)
) SS
CITY OF BALTIMORE)

On this ____ day of _____, 1981, before me personally appeared _____, to me personally known, who being by me duly sworn, says that he is an Assistant Vice President of MERCANTILE-SAFE DEPOSIT AND TRUST COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors; and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Notary Public

(SEAL)

My commission expires:

DESCRIPTION OF EQUIPMENT PRIOR TO REBUILDING

<u>Number of Hulks</u>	<u>Description of Hulks</u>	<u>Hulk Purchase Price Per Unit</u>
11	SW-14 locomotives marked and numbered as follows: IC 463, IC 404, ICG 476, IC 442, ICG 443, IC 470, ICG 475, CIW 103, ICG 465, IC 462 and IC 457	\$39,000

DESCRIPTION OF EQUIPMENT FOLLOWING REBUILDING
AND OF PURCHASED EQUIPMENT

- | | |
|-----|---|
| 11 | Rebuilt SW-14 Diesel Electric Locomotives Marked and Numbered ICG 1478 through ICG 1488, both inclusive |
| 240 | 100-Ton Open Top Hopper Cars Marked and Numbered ICG 387500 through 387739, both inclusive |

PRINCIPAL AMORTIZATION SCHEDULE

(Payments Required Per \$1,000,000 Principal Amount
of Secured Notes Issued by Debtor)

<u>Date Due</u>	<u>Total Principal Payment</u>	<u>Principal Balance</u>
1/1/84	\$13,999.20	\$986,000.80
4/1/84	14,349.18	971,651.62
7/1/84	14,707.91	956,943.71
10/1/84	15,075.61	941,868.10
1/1/85	15,452.50	926,415.61
4/1/85	15,838.81	910,576.80
7/1/85	16,234.78	894,342.02
10/1/85	16,640.65	877,701.37
1/1/86	17,056.67	860,644.70
4/1/86	17,483.08	843,161.62
7/1/86	17,920.16	825,241.46
10/1/86	18,368.16	806,873.29
1/1/87	18,827.37	788,045.93
4/1/87	19,298.05	768,747.88
7/1/87	19,780.50	748,967.37
10/1/87	20,275.02	728,692.36
1/1/88	20,781.89	707,910.47
4/1/88	21,301.44	686,609.03
7/1/88	21,833.97	664,775.05
10/1/88	22,379.82	642,395.23
1/1/89	22,939.32	619,455.91
4/1/89	23,512.80	595,943.11
7/1/89	24,100.62	571,842.49
10/1/89	24,703.14	547,139.35
1/1/90	25,320.72	521,818.63
4/1/90	25,953.73	495,864.90
7/1/90	26,602.58	469,262.32
10/1/90	25,119.74	444,142.58
1/1/91	23,295.64	420,846.95
4/1/91	28,215.46	392,631.49
7/1/91	28,313.91	364,317.58
10/1/91	29,891.26	334,426.32
1/1/92	30,638.54	303,787.77
4/1/92	31,404.51	272,383.27
7/1/92	36,089.54	236,293.73
10/1/92	36,991.78	199,301.95
1/1/93	37,916.57	161,385.38
4/1/93	38,864.49	122,520.90
7/1/93	39,836.10	82,684.80
10/1/93	40,832.00	41,852.80
1/1/94	41,852.80	.00

THE CONNECTICUT BANK AND TRUST COMPANY
As Trustee under I.C.G. Trust No. 81-3

SECURED NOTE

No. R-

\$

, 1981

FOR VALUE RECEIVED, the undersigned, THE CONNECTICUT BANK AND TRUST COMPANY, not individually but solely as trustee (the "Trustee") under that certain Trust Agreement dated as of June 1, 1981 with Valley Bank Leasing, Inc. (the "Trustor"), sometimes identified as I.C.G. Trust No. 81-3 (the "Trust Agreement") promises to pay to

FIRST INTERSTATE BANK OF CALIFORNIA

or registered assigns,
the principal sum of

and to pay interest accrued and unpaid from the date hereof until maturity (computed on the actual number of days elapsed divided by 360) on the unpaid principal hereof, in installments as follows:

(i) Installments of accrued and unpaid interest only are payable on October 1, 1981 and on the first day of each January, April, July and October thereafter to and including October 1, 1983; followed by

(ii) Forty-one (41) installments of principal and interest, the amount of the principal portion of each respective installment shall be equal to the amount therefor specified on Schedule A attached hereto and made a part hereof, payable on January 1, 1984 and on the first day of each April, July, October and January thereafter to and including January 1, 1994; and

(iii) Interest on overdue principal and (to the extent legally enforceable) on overdue interest due on or prior to January 1, 1984 at a rate per annum equal to 1% in excess of the Prime Rate after maturity, whether by acceleration or otherwise, until paid, and for such sums due after January 1, 1984, interest at a rate per annum equal to 1% in excess of 120% of the Prime Rate for such period.

For the period from and after the date of this Note to but not including January 1, 1984, interest accrued and payable on this Note shall be computed at the Prime Rate, and for the period from and after January 1, 1984 interest accrued and payable on this Note shall be computed at 120% of the Prime Rate. As used herein, the term "Prime Rate" shall mean that rate of interest which from time to time is announced by First Interstate Bank of California as its prime rate.

Both the principal hereof and interest hereon are payable to the registered holder hereof in coin or currency of the United States of America which at the time of payment shall be legal tender for the payment of public and private debts. If the date on which any payment on this Note is to be made is not a business day, the payment otherwise payable on such date shall be payable on the next succeeding business day. For purposes of this Note, the term "business day" means calendar days, excluding Saturdays, Sundays and holidays on which banks in the States of Illinois, Connecticut, California or Maryland are authorized or required to close.

This Note is one of the Secured Notes of the Trustee not exceeding \$11,690,400 in aggregate principal amount (the "Notes") issued under and pursuant to the Participation Agreement dated as of June 1, 1981 among the Trustee, the Trustor, Illinois Central Gulf Railroad Company (the "Lessee"), Waterloo Railroad Company, Mercantile-Safe Deposit and Trust Company, as security trustee (the "Secured Party") and the institutional investor referred to in Schedule 2 thereto, and also issued under and equally and ratably with said other Notes secured by that certain Security Agreement-Trust Deed dated as of June 1, 1981 (the "Security Agreement") from the Trustee to the Secured Party. Reference is made to the Security Agreement and all supplements and amendments thereto executed pursuant to the Security Agreement for a description of the Collateral (as defined in the Security Agreement), and the nature and extent of the security and rights of the Secured Party, the holder or holders of the Notes and of the Trustee in respect thereof.

This Note may be prepaid by the Trustee upon not less than ten business days prior written notice given in the manner provided in Section 8.10 of the Security Agreement in an amount equal to the entire unpaid principal plus accrued interest to the date of prepayment, but without premium.

The terms and provisions of the Security Agreement and the rights and obligations of the Secured Party and the rights of the holders of the Notes may be changed and modified to the extent permitted by and as provided in the Security Agreement.

This Note is a registered Note and is transferable only by surrender thereof at the principal office of the Trustee, duly endorsed or accompanied by a written instrument of transfer, duly executed by the registered holder of this Note or his attorney duly authorized in writing.

This Note and the Security Agreement are governed by and construed in accordance with the laws of the State of Maryland.

It is expressly understood and agreed by and between the Trustee, the Trustor, the holder of this Note and the Secured Party and their respective successors and assigns, that this Note is executed by The Connecticut Bank and Trust Company, not individually or personally but solely as Trustee under the Trust Agreement in the exercise of the power and authority conferred and vested in it as such Trustee; and it is expressly understood and agreed that nothing herein contained shall be construed as creating any liability of The Connecticut Bank and Trust Company, or of the Trustor, individually or personally, for or on account of any express or implied representation, warranty, covenant or agreement made herein (other than those expressly made in the Trustee's individual capacity in the Participation Agreement and in Section 2.2 of the Security Agreement), all such liability, if any, being expressly waived by the holder of this Note and by the Secured Party and by each and every person now or hereafter claiming by, through or under the holder of this Note or the Secured Party; and that so far as The Connecticut Bank and Trust Company or the Trustor, individually or personally, are concerned, the holder of this Note and the Secured Party and any person claiming by, through or under the holder of this Note or the Secured Party shall look solely to the Collateral for payment of the indebtedness evidenced by this Note or of any liability resulting from or arising out of any breach of any representation, warranty or covenant (other than those expressly made in the Trustee's individual capacity in the Participation Agreement and in Section 2.2 of the Security Agreement) made by the Trustee herein.

IN WITNESS WHEREOF, the Trustee has caused this Note to be duly executed.

THE CONNECTICUT BANK AND TRUST COMPANY, not in its individual capacity but solely as Trustee

By

Its _____

NOTICE

THIS NOTE HAS NOT BEEN REGISTERED PURSUANT TO THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE OFFERED OR SOLD UNLESS IT IS REGISTERED UNDER THE APPLICABLE SECURITIES LAWS OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

Inquiries Should be Made to the Security Trustee if Certification as to Balance Due Hereunder is Required.